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# Checklists and illustrative financial statements for defined contribution pension plans : a financial accounting and reporting practice aid, July 2000 edition

American Institute of Certified Public Accountants. Accounting and Auditing Publications

Linda Delahanty

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**AICPA**

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

**JULY 2000 EDITION**

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AND ILLUSTRATIVE  
FINANCIAL STATEMENTS  
FOR DEFINED  
CONTRIBUTION  
PENSION PLANS**

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JULY 2000 EDITION

# **CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR DEFINED CONTRIBUTION PENSION PLANS**

*A Financial Accounting and  
Reporting Practice Aid*

*Edited by*

**Linda Delahanty, CPA**

*Technical Manager, Accounting and Auditing Publications*

*Checklists and Illustrative Financial Statements  
for Defined Contribution Pension Plans* has not been  
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# FSP Section 8000

## *Checklists and Illustrative Financial Statements for Defined Contribution Pension Plans*

### Description

.01 Employee benefit plans include defined benefit pension plans, defined contribution retirement plans, and health and welfare benefit plans (both defined benefit and defined contribution). Defined contribution retirement plans provide an individual account for each participant and provide benefits that are based on (a) amounts contributed to the participant's account by the employer or employee, (b) investment experience, and (c) any forfeitures allocated to the account, less any administrative expenses charged to the plan. These plans include profit-sharing plans, money purchase pension plans, stock bonus and employee stock ownership plans (ESOPs), thrift or savings plans including 401(k) arrangements, and certain target benefit plans.

.02 Defined contribution retirement plans may be single employer plans or multiemployer plans. In addition, these plans may be funded through accumulated contributions and investment income (self-funded plans), insurance contracts (insured plans), or a combination of both (split-funded plans). In the context of this checklist, reference to defined contribution plans refers to defined contribution retirement plans only and does not include health and welfare benefit plans (see the separate publication, *Checklist and Illustrative Financial Statements for Health and Welfare Benefit Plans*, that includes both defined benefit and defined contribution health and welfare benefit plans).

### Regulatory Requirements

.03 The Employee Retirement Income Security Act of 1974 (ERISA) provides for substantial federal government oversight of the operating and reporting practices of employee benefit plans. Under ERISA, the Department of Labor (DOL) and the Internal Revenue Service (IRS) have the authority to issue regulations covering reporting and disclosure requirements. (Appendix A of the Audit and Accounting Guide *Audits of Employee Benefit Plans* describes which plans are covered by ERISA.)

.04 ERISA generally requires that the administrator of an employee benefit plan prepare and file various documents with the DOL and the IRS. The annual report to be filed for employee benefit plans generally is the Form 5500 Series. The Form 5500, a joint-agency form developed by the IRS, the DOL, and the PBGC (Pension Benefit Guaranty Corporation), may be used to satisfy the annual reporting requirements of the Internal Revenue Code (IRC) and Titles I and IV of ERISA. (See FSP section 8000.12–.14 for a discussion about the newly revised Form 5500.)

.05 Some defined contribution plans are required to register and report to the Securities and Exchange Commission (SEC). When securities are registered (typically on Form S-8) to be offered to employees pursuant to any employee benefit plan, the plan is required to file annual reports to the SEC on Form 11-K. Regulation S-X prescribes the form of the statements of financial position and statements of income and changes in plan equity that those plans must file with the SEC. The SEC has amended its rules for Form 11-K to permit plans subject to ERISA to file financial statements in accordance with ERISA rather than Regulation

S-X. It is important to note however that “limited scope” audits or financial statements prepared on an “Other Comprehensive Basis of Accounting” (OCBOA), such as the modified cash basis, which are generally acceptable under ERISA regulations, are not considered acceptable for SEC filings. In addition, financial statements in accordance with ERISA included in an 11-K filing are due within 180 days after the plan’s fiscal year; an 11-K filing which includes financial statements under Regulation S-X are due within 90 days after the plan’s fiscal year.

## Financial Accounting and Reporting Standards

.06 The AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* (the Guide) describes generally accepted accounting principles for accounting and financial reporting for defined contribution plans. Except for certain differences in determining plan benefits, defined contribution plans are similar to defined benefit pension plans and accordingly, the guidance is consistent with the accounting and reporting standards in FASB Statement of Financial Accounting Standards (SFAS) No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, as amended by SFAS No. 110, *Reporting by Defined Benefit Pension Plans of Investment Contracts*. SFAS No. 35, as amended, establishes generally accepted accounting principles for defined benefit pension plans.

.07 The AICPA Statement of Position (SOP) 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans*, as amended by SOP 99-3, *Accounting for and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters*, specifies the accounting and reporting for defined contribution plan investment contracts.

.08 In September 1999, SOP 99-3, *Accounting for and Reporting of Certain Defined Contribution Plan Investments and Other Disclosure Matters*, was issued. SOP 99-3 amends chapters 3 and 4 of the Guide, SOP 94-4, and SOP 92-6, *Accounting and Reporting by Health and Welfare Benefit Plans*. SOP 99-3 simplifies disclosures for certain investments and supersedes AICPA Practice Bulletin 12, *Reporting Separate Investment Fund Option Information of Defined-Contribution Pension Plans* (PB 12). This SOP is effective for financial statements for plan years ending after December 15, 1999 with earlier application encouraged for fiscal years for which annual financial statements have not been issued. If the previously required “by-fund” disclosures are eliminated, the reclassification of comparative amounts in financial statements for earlier periods is required. SOP 99-3—

1. Amends paragraph 3.20 of the Guide to eliminate the previous requirement for a defined contribution plan to present plan investments by general type for participant-directed investments in the statement of net assets available for benefits.
2. Amends paragraph 3.28(k) and supersedes paragraph 3.28(l) of the Guide and supersedes PB 12 to eliminate the requirement for a defined contribution plan to disclose participant-directed investment programs and to eliminate the requirement to disclose the total number of units and the net asset value per unit during the period, and at the end of the period, by defined contribution pension plans that assign units to participants.
3. Amends paragraph 3.28(g) of the Guide to require a defined contribution plan to identify nonparticipant-directed investments that represent 5 percent or more of net assets available for benefits.
4. Amends paragraphs 3.28(p) and 4.57 of the Guide, paragraph 53 of SOP 92-6, and paragraph 15 of SOP 94-4 to eliminate the requirement for defined contribution plans, including both health and welfare benefit plans and pension plans, to disclose benefit-responsive investment contracts by investment fund option.
5. Replaces exhibits E-1 through E-5 in the Guide.



## Accounting and Reporting by Defined Contribution Retirement Plans

.09 Defined contribution plan financial statements intended to be presented in accordance with generally accepted accounting principles should be prepared on the accrual basis and should include the following:

- A statement of net assets available for benefits as of the end of the plan year. (ERISA requires that this statement be presented in comparative form.)
- A statement of changes in net assets available for benefits for the year then ended.

.10 Except as noted in the following paragraph, plan investments are generally presented at their fair value at the reporting date and assets used in plan operations are presented at cost less accumulated depreciation or amortization.

.11 Defined contribution plans should report fully-benefit responsive investment contracts at contract value, which may or may not be equal to fair value, and other investment contracts at fair value. If, however, plan management is aware that an event has occurred that may affect the value of the contract (for example, a decline in the creditworthiness of the contract issuer) pursuant to SFAS No. 5, *Accounting for Contingencies*, disclosure of the event or reporting the investment at less than contract value may be appropriate.

.12 In addition to the reporting requirements of SFAS No. 35, as amended, and the AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans*, defined contribution plans may have reporting requirements under ERISA.

On February 2, 2000, the DOL, Internal Revenue Service (IRS), and the Pension Benefit Guarantee Corporation (PBGC) announced the adoption of a substantially revised and improved Form 5500, Annual Return/Report of Employee Benefit Plan. Beginning with the 1999 filing year, the agencies have replaced the Form 5500 Series with one form, the Form 5500, intended to streamline the report and the methods by which it is filed and processed. Beginning July 1, 2000, the DOL took over the processing responsibilities for the Form 5500 and Form 5500-EZ from the IRS. The DOL has developed a new computerized system that will simplify and expedite the receipt and processing of the Form 5500 by relying on computer-scannable forms and electronic filing technologies. This system, called the ERISA Filing Acceptance System (EFAST), will reduce government and filer costs associated with filing, receiving, and processing annual reports.

.13 The 1999 Form 5500 continues to require that certain supplemental schedules be attached to the annual Form 5500 filing. The information reported in these schedules has not changed from prior years. However, reporting has now been standardized in that some of these schedules are now required to be reported on Schedule G, "Financial Transactions Schedules" of Form 5500. The following schedules are required to be reported on Schedule G:

- Schedule of Loans or Fixed Income Obligations in Default or Classified as Uncollectible
- Schedule of Leases in Default or Classified as Uncollectible
- Schedule of Nonexempt Transactions

The following schedules are still required to be attached to the Form 5500 filing:

- Schedule of Assets Held for Investment Purposes at End of Year<sup>1</sup>

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<sup>1</sup> **Practice Tip**—Historical cost information is no longer required on the Schedule of Assets Held for Investment Purposes at End of Year for participant-directed investments.

- Schedule of Assets Both Acquired and Disposed of Within the Plan Year
- Schedule of Reportable Transactions<sup>2</sup>

Please refer to the Instructions to Form 5500 for schedule requirements.

.14 The EFAST computerized filing system will process the new 1999 Form 5500 in two computer-scannable formats: machine print and hand print (the questions are the same, only the appearance is different). Except for those who file electronically, use of computer-scannable forms is mandatory for 1999 plan year reports, which generally will be due starting in July, 2000.<sup>3</sup> For more information on the 1999 Form 5500 and EFAST computerized filing system, see the DOL's EFAST Web site at <http://www.efast.dol.gov> and the "What's new" area on the PWBA's home page at <http://www.dol.gov/dol/pwba>. See also the AICPA Audit Risk Alert, *Employee Benefit Plans Industry Developments—2000* (product number 022245) for a more in-depth discussion of the revisions to the Form 5500 series and the new "EFAST" computerized filing system.

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**Note:** This publication was extracted from sections 8000 through 8400 of the AICPA *Financial Statement Preparation Manual* (FSP).

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<sup>2</sup> **Practice Tip**—Participant- or beneficiary-directed transactions are no longer required to be taken into account for purposes of preparing the schedule of reportable transactions. In a plan's initial year, the 5 percent threshold for the schedule of reportable transactions is based on the *end-of-year* balance of the plan's assets.

<sup>3</sup> To help filers make the transition to the new EFAST system, the PWBA will not reject, during the first processing year of the new EFAST system, any 1999 annual return/report filing solely because it was submitted in whole or in part on a unofficial computer generated version of the 1999 hand-print form. However, certain minimum standards must be met. See the questions and answers on the EFAST Web site ([www.efast.dol.gov](http://www.efast.dol.gov)) for more information on this topic.

# FSP Section 8100

## *Instructions*

### General

.01 This publication includes:

- **Financial Statements and Notes Checklist**—For use by preparers of defined contribution pension plan financial statements and by practitioners who audit them as they evaluate the adequacy of disclosures.
- **Auditors' Report Checklist**—For use by auditors in reporting on audited defined contribution pension plan financial statements.
- **Illustrative Financial Statements and Auditor's Reports**—Illustrating full sets of defined contribution pension plan financial statements.

.02 The checklists and illustrative financial statements included in this section have been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as nonauthoritative practice aids to be used as a memory jogger to aid in the audit of financial statements of defined contribution retirement plans. In the context of this checklist, reference to defined contribution plans refers to defined contribution retirement plans only and does not include health and welfare benefit plans (see the separate publication, *Checklist and Illustrative Financial Statement for Health and Welfare Benefit Plans*, that includes both defined benefit and defined contribution health and welfare benefit plans).

The checklists have been updated to include guidance relevant to employee benefit plans contained in official pronouncements issued through:

- FASB Statement of Financial Accounting Standards No. 137, *Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133*
- FASB Interpretation No. 43, *Real Estate Sales*
- FASB Technical Bulletin No. 97-1, *Accounting Under Statement 123 for Certain Employee Stock Purchase Plans with a Look-Back Option*
- AICPA Statement on Auditing Standards No. 90, *Audit Committee Communications*
- AICPA Statement of Position 00-1, *Auditing Health Care Third-Party Revenues and Related Receivables*
- AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* (with conforming changes as of May 1, 2000)
- AICPA Practice Bulletin No. 15, *Accounting by the Issuer of Surplus Notes*
- EITF consensuses adopted through the January 2000 Emerging Issues Task Force (EITF) meeting

The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.

## Instructions

.03 The checklists consist of a number of questions or statements that are accompanied by references to the applicable authoritative pronouncements. The checklists provide for checking off or initialing each question or point to show that it has been considered. Users should check: “yes” if the disclosure has been appropriately made, “no” if the disclosure has not been made, or “n/a” if the disclosure is not applicable to the engagement. The auditor should consider the effect of a “no” answer on his/her report. A “no” answer that is material to the financial statements may warrant a departure from an unqualified opinion (see paragraphs 20–63 of SAS No. 58, *Reports on Audited Financial Statements*, as amended [AICPA, *Professional Standards*, vol. 1, AU sec. 508.20–.63]). If a “no” answer is checked, the authors recommend that a note be made in the right margin to explain why the disclosure was not made (for example, if the disclosure was not made because it was not material to the financial statements, write “not material” in the right margin). The right margin may be used for other remarks or comments as appropriate, including cross-referencing to applicable workpapers where the support to a disclosure may be found. Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.

.04 The checklist is not a substitute for the authoritative pronouncements. Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated nor do they represent minimum requirements. Pronouncements deemed remote for defined contribution retirement plans are not included in this document. The checklists and illustrative financial statements are “tools” and in no way represent official positions or pronouncements of the AICPA.

.05 If you have further questions, call the AICPA Technical Hotline at 1-888-777-7077.

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# FSP Section 8200

## *Financial Statements and Notes Checklist*

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

.02 Explanation of References:

AAG =	AICPA Audit and Accounting Guide <i>Audits of Employee Benefit Plans</i> —with conforming changes as of May 1, 2000
SFAS =	FASB Statement of Financial Accounting Standards
FASBI =	FASB Interpretation
APB =	Accounting Principles Board Opinion
ARB =	Accounting Research Bulletin
AC =	Reference to section number in <i>FASB Accounting Standards—Current Text</i>
SAS =	AICPA Statement on Auditing Standards
AU =	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
SOP =	AICPA Statement of Position
EITF =	Emerging Issues Task Force consensuses
PB =	AcSEC Practice Bulletin
CFR =	Code of Federal Regulations
DOL =	Department of Labor
ERISA =	Employee Retirement Income Security Act of 1974
PBGC =	Pension Benefit Guaranty Corporation

.03 Checklist Questionnaire:

This financial statement disclosure checklist is organized into the sections listed below. Carefully review the topics listed and consider whether they represent potential disclosure items for the plan. Place a check mark by the topics or sections considered not applicable; these sections need not be completed. For example, if the plan has not or is not being terminated, place a check by Other Financial Statement Disclosures, Section I, "Plan Terminations," and skip this section when completing the checklist.

*Place ✓ by  
Sections Not Applicable*

- General
  - A. Titles and References \_\_\_\_\_
  - B. Comparative Financial Statements \_\_\_\_\_
- Statement of Net Assets Available for Benefits
  - A. General \_\_\_\_\_
  - B. Classification of Investments \_\_\_\_\_
  - C. Investment and Insurance Contracts \_\_\_\_\_

*Place ✓ by  
Sections Not Applicable*

- |  |       |
|--|-------|
| D. Operating Assets  | _____ |
| E. Contributions Receivable and Uncollectible Amounts  | _____ |
| F. Cash  | _____ |
| G. Liabilities   | _____ |
|  |       |
| • Statement of Changes in Net Assets Available for Benefits  |       |
| A. General   | _____ |
| B. Contributions   | _____ |
| C. Investment Earnings   | _____ |
| D. Transfer of Assets To or From Other Plans   | _____ |
|  |       |
| • Summary of Significant Accounting Policies   |       |
| A. Accounting Policies   | _____ |
| B. Certain Significant Estimates   | _____ |
|  |       |
| • Other Financial Statement Disclosures  |       |
| A. Changes in Accounting   | _____ |
| B. Commitments and Contingencies   | _____ |
| C. Current Vulnerabilities Due to Certain Concentrations   | _____ |
| D. Derivatives   | _____ |
| E. Description of Defined Contribution Plan  | _____ |
| F. Description of Plan Amendments  | _____ |
| G. Financial Instruments   | _____ |
| H. Income Tax Status   | _____ |
| I. Plan Terminations   | _____ |
| J. Related-Party Transactions  | _____ |
| K. Subsequent Events   | _____ |
| L. Other Matters   | _____ |
|  |       |
| • ERISA Reporting Requirements   |       |
| A. Form 5500 Series Report   | _____ |
| B. Financial Statement Disclosures Required Under the Alternative<br>Method of Compliance for Pension Plans Pursuant to DOL<br>Regulations Section CFR 2520.103 and Section 103 of ERISA | _____ |
| C. Required Financial Statements and Supporting Schedules  | _____ |
|  |       |
| • Auditors' Report Checklist   | _____ |
|  |       |
| • Illustrative Financial Statements  |       |

Yes    No    N/A

## General

### A. Titles and References<sup>1</sup>

1. For a full presentation in conformity with generally accepted accounting principles (GAAP), are the following financial statements presented:

---

<sup>1</sup> Some defined contribution plans are required to register and report to the Securities Exchange Commission (SEC). The SEC has amended its rules on Form 11-K to permit plans subject to ERISA to file financial statements in accordance with ERISA rather than in accordance with Regulation S-X. Please refer to the instructions to Form 11-K for additional information.



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. A "Statement of Net Assets Available for Benefits" as of the end of plan year? (ERISA requires that this statement be presented in comparative form.)	_____	_____	_____
b. A "Statement of Changes in Net Assets Available for Benefits" for the year then ended? [AAG, par. 3.10]	_____	_____	_____
2. Is each financial statement suitably titled? [SAS 62, par. 7 (AU 623.07)]	_____	_____	_____
3. Does each statement include a reference to the notes, which are an integral part of the financial statements? [Generally Accepted]	_____	_____	_____
4. Do the plan financial statements include information about the plan resources and how the stewardship responsibility for those resources has been discharged, the results of transactions and events that affect the information about those resources, and other factors necessary for users and participants to understand the information provided? [AAG, par. 3.09]	_____	_____	_____
<b>B. Comparative Financial Statements</b>			
1. Are comparative statements presented, if appropriate? <sup>2</sup> [ARB 43, Ch. 2A, pars. 1 and 2 (AC F43.101 and .102)]	_____	_____	_____
2. Are the notes and other disclosures included in the financial statements of the prior years presented, repeated, or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	_____	_____	_____
3. If changes occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 3 (AC F43.103)]	_____	_____	_____
<b>Statement of Net Assets Available for Benefits</b>			
<b>A. General</b>			
1. Is the information in the "Statement of Net Assets Available for Benefits" presented in such reasonable detail as is necessary to identify the plan's resources that are available for benefits? [SFAS 35, par. 9 (AC Pe5.108)]	_____	_____	_____
<b>B. Classification of Investments</b>			
1. Are participant-directed plan investments shown in the aggregate as a one-line item? [SOP 99-3, par. 9; AAG, par. 3.20]	_____	_____	_____
2. Are non-participant directed investments detailed by general type in the "Statement of Net Assets Available for Benefits" or in the notes, as follows:			
a. Shares of registered investment companies (mutual funds)?	_____	_____	_____
b. Government securities?	_____	_____	_____

<sup>2</sup> ERISA requires that the "Statement of Net Assets Available for Benefits" be presented in comparative form. [AAG, par. 3.10, fn. 8]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Short-term securities?	_____	_____	_____
d. Corporate bonds?	_____	_____	_____
e. Common stocks?	_____	_____	_____
f. Mortgages?	_____	_____	_____
g. Loans to participants?	_____	_____	_____
h. Real estate?	_____	_____	_____
i. Participant-directed plan investments? [SOP 99-3, par. 9; AAG, par. 3.20]	_____	_____	_____
3. Does the presentation of the plan's investments indicate whether reported fair values have been measured by quoted prices in an active market or otherwise determined? [SOP 99-3, par. 9; AAG, par. 3.20]	_____	_____	_____
4. For investments that represent 5 percent or more of the plan's net assets available for benefits:			
a. Are they identified in the financial statements or notes thereto?	_____	_____	_____
b. If any of those investments are nonparticipant-directed, are they identified as such? [SOP 99-3, par. 10; AAG, par. 3.28g]	_____	_____	_____

#### Practice Tip

Listing all investments in the "Schedule of Assets Held for Investment Purposes" required by ERISA does not eliminate the requirement to include this disclosure in the financial statements.  
[AAG, par. 3.28g]

4. Do disclosures include the investments of a master trust detailed by general type, such as government securities, short-term securities, corporate bonds, common stocks, mortgages, and real estate, as of the date of each "Statement of Net Assets Available for Benefits" presented? [AAG, par. 3.33]	_____	_____	_____
5. Do disclosures include a description of the basis used to allocate net assets, net investment income, gains and losses to participating plans, and the plan's percentage interest in a master trust as of the date of each "Statement of Net Assets Available for Benefits"? [AAG, par. 3.33]	_____	_____	_____
6. Do disclosures include investments pledged to secure debt of the plan as well as a description of the provisions regarding the release of such investments from the pledge and the amounts of investments released from the pledge in the last period? [AAG, par. 3.28i]	_____	_____	_____
7. If the plan provides for participant-directed <sup>3</sup> and nonparticipant-directed investment programs, is disclosure made, either in the financial statements or accompanying notes, about the net assets and significant components of the changes in net assets relating to the nonparticipant-directed program with such reasonable detail as is necessary to identify the types of investments and changes therein? [SOP 99-3, par. 8; AAG, par. 3.28k]	_____	_____	_____

<sup>3</sup> A plan provides for participant-directed investment programs if it allows participants to choose among various investment alternatives. The available alternatives are usually pooled fund vehicles, such as registered investment companies or commingled funds of banks, that provide varying kinds of investments—for example, equity funds and fixed income funds. The participant may select among the various available alternatives and periodically change that selection.

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**Practice Tip**

If a plan offers a program that is both participant- and nonparticipant-directed, and if the participant-directed and nonparticipant-directed amounts cannot be separately determined, the plan will be deemed to be nonparticipant-directed for purposes of this disclosure. For example, an employer-sponsored plan offers six investment fund options, one of which is a stock fund that includes only the employer's stock. Employees at their discretion may invest their contributions in any or all of the six options. However, the employer's contribution to the plan (for example, the company match) is automatically invested in the employer's stock fund. The stock fund is considered to be nonparticipant-directed for purposes of this disclosure if the employee and the employer amounts cannot be separately determined.  
[SOP 99-3, fn 3]

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**C. Investment and Insurance Contracts**

- |   |                            |                            |                            |
|---|----------------------------|----------------------------|----------------------------|
| <p>1. Are fully benefit-responsive investment contracts reported at contract value, which may or may not be equal to fair value, and all other investment contracts at fair value?<br/>[SOP 94-4, par. 4; AAG, par. 3.17]</p>   | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> |
| <p>2. If management is aware that an event has occurred that may affect the value of the fully benefit-responsive contract, pursuant to SFAS 5, <i>Accounting for Contingencies</i>, is the event disclosed or is the investment reported at less than contract value?<br/>[AAG, par. 3.17]</p> | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> |
- 

**Practice Tip**

A fully benefit-responsive investment contract provides a liquidity guarantee by a financially responsible third party of principal and previously accrued interest for transactions initiated by plan participants under the terms of the ongoing plan.  
[SOP 94-4, par. 10]

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- |   |                            |                            |                            |
|---|----------------------------|----------------------------|----------------------------|
| <p>3. Are insurance contracts, as defined by SFAS 60, <i>Accounting and Reporting by Insurance Enterprises</i>, presented in the same manner required by ERISA annual reporting requirements of DOL Forms 5500-5500 C/R, that is either at fair value or at amounts determined by the insurance enterprise (contract value)?<br/>[SOP 94-4, par. 17b; AAG, par. 3.13]</p> | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> |
| <p>4. Are the following disclosed, in the aggregate, for fully benefit-responsive investment contracts:</p>   |                            |                            |                            |
| <p>a. The average yield for each period for which a statement of net assets available for benefits is presented?</p>  | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> |
| <p>b. The crediting interest rate as of the date of each statement of net assets available for benefits presented?</p>  | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> |
| <p>c. The amount of valuation reserves recorded to adjust contract amounts (for example, due to problems with the credit worthiness of the contract issuer or third-party guarantor)?</p>   | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> |
| <p>d. The fair value of investment contracts reported at contract value, in accordance with SFAS 107, <i>Disclosures about Fair Value of Financial Instruments</i>, as amended by SFAS 126?<br/>[SOP 94-4, pars. 15 and 17g; AAG, par. 3.28o]</p>   | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Do disclosures include a general description of the basis and frequency of determining crediting interest rate resets and any minimum crediting interest rate under the terms of fully benefit-responsive investment contracts and any limitations on related liquidity guarantees (for example, premature termination of the contracts by the plan, plant closings, layoffs, plan termination, bankruptcy, mergers, and early retirement incentives)? [SOP 94-4, pars. 15 and 17g; AAG, par. 3.28p]	_____	_____	_____
6. For ERISA-covered plans, is an explanation provided for differences between amounts reported in the financial statements and DOL Form 5500, if a fully benefit-responsive investment contract does not qualify for contract-value reporting in the DOL Form 5500, but is reported in the financial statements at contract value, and the contract value does not approximate fair value? [SOP 94-4, pars. 16 and 17g; AAG, par. 3.28q]	_____	_____	_____
<b>D. Operating Assets</b>			
1. For depreciable assets, do the financial statements include disclosure of:			
a. Depreciation expense for each period?	_____	_____	_____
b. Balances of major classes of depreciable assets by nature or function?	_____	_____	_____
c. Accumulated depreciation, either by major classes of assets or in total?	_____	_____	_____
d. The method or methods used in computing depreciation for each major class of depreciable assets? [APB 12, par. 5a–d (AC D40.105a–d)]	_____	_____	_____
2. If an impairment loss is recognized for assets to be held and used, or for assets to be disposed of, are disclosures made in accordance with SFAS 121, <i>Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of</i> , paragraphs 13, 14, and 19? <sup>4</sup>	_____	_____	_____
<b>E. Contributions Receivable and Uncollectible Amounts</b>			
1. Are the following contributions receivable separately identified:			
a. Receivables from employer(s)?	_____	_____	_____
b. Receivables from participants?	_____	_____	_____
c. Other sources of funding pursuant to formal commitments as well as legal or contractual requirements? [AAG, par. 3.21]	_____	_____	_____
2. Do contributions receivable include an allowance for uncollectible amounts? [AAG, par. 3.21]	_____	_____	_____
<b>F. Cash</b>			
1. Is separate disclosure made of restricted cash? [ARB 43, Ch. 3A, par. 6 (AC B05.107)]	_____	_____	_____

<sup>4</sup> SFAS 121 establishes accounting standards for the impairment of long-lived assets to be held and used and assets to be disposed of. SFAS 121 requires that long-lived assets to be held and used by the plan be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The required disclosures of SFAS 121 have not been included in the checklist due to the determination that many of the disclosure requirements would not be applicable to defined-contribution plans however if the plan recognizes an impairment of long-lived assets please refer to SFAS 121, paragraphs 13, 14, 18, and 19 for the disclosure requirements.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>G. Liabilities</b>			
1. Are liabilities (other than for benefits) deducted in arriving at net assets available for plan benefits? [AAG, par. 3.24]	_____	_____	_____
<hr/>			
<b>Practice Tip</b>			
Amounts allocated to accounts of persons who have elected to withdraw from the plan but have not yet been paid should not be reflected as liabilities? [AAG, pars. 3.24 and 3.28/]			
<hr/>			
2. Consider stating separately:			
a. Due to broker for securities purchased?	_____	_____	_____
b. Accounts payable?	_____	_____	_____
c. Accrued expenses? [AAG, par. 3.24, and App. E, Exhibits E-1 and E-4]	_____	_____	_____
3. Do disclosures include guarantees by others of debt of the plan? [AAG, par. 3.28j]	_____	_____	_____

## Statement of Changes in Net Assets Available for Benefits

### A. General

1. Does the "Statement of Changes in Net Assets Available for Benefits" (or the notes to the financial statements) present the net appreciation (depreciation) in the fair value of each significant type of investment, segregated between investments whose fair values have been measured by quoted market prices in an active market and those whose fair values have been otherwise determined? [AAG, par. 3.25]	_____	_____	_____
2. At a minimum, does the "Statement of Changes in Net Assets Available for Benefits" disclose:			
a. Investment income (exclusive of changes in fair value)?	_____	_____	_____
b. Contributions from employer(s), segregated between cash and noncash contributions?	_____	_____	_____
c. Contributions from participants, including those transmitted by the sponsor?	_____	_____	_____
d. Contributions from other sources (e.g., state subsidies or federal grants)?	_____	_____	_____
e. Benefits paid to participants?	_____	_____	_____
f. Payments to insurance companies to purchase contracts that are excluded from plan assets?	_____	_____	_____
g. Administrative expenses?	_____	_____	_____
h. Other changes? (For example, transfers of assets to or from other plans, if significant.) [AAG, pars. 3.25 and 3.26]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>B. Contributions</b>			
1. Is the nature of noncash contributions described, either parenthetically or in a footnote? [AAG, par. 3.25c]	_____	_____	_____
<b>C. Investment Earnings</b>			
1. Does the net appreciation (depreciation) in the fair value of investments (see Step A.1. above) include realized gains and losses on investments that were both bought and sold during the year? [AAG, par. 3.25, fn. 10]	_____	_____	_____
2. Is the net change in the fair value of each significant type of investment of a master trust and total investment income of the master trust by type (e.g., interest, dividends, etc.) disclosed for each period for which a "Statement of Changes in Net Assets Available for Benefits" is presented? [AAG, par. 3.33]	_____	_____	_____
<b>D. Transfer of Assets To or From Other Plans</b>			
1. If there are other changes, such as significant transfer of assets to or from other plans, are they disclosed? [AAG, par. 3.26]	_____	_____	_____

## Summary of Significant Accounting Policies

### A. Accounting Policies

1. Is a description of all significant accounting policies presented in a separate "summary of significant accounting policies" preceding the notes to the financial statements or as an initial note? [APB 22, pars. 8 and 15 (AC A10.102 and 108)]	_____	_____	_____
2. Does the disclosure of significant accounting policies identify and describe all significant accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position and results of operations, including instances in which there:			
a. Is a selection from existing acceptable alternatives?	_____	_____	_____
b. Are principles and methods peculiar to the industry in which the reporting entity operates, even if such principles and methods are predominantly followed in that industry?	_____	_____	_____
c. Are unusual or innovative applications of GAAP? [APB 22, par. 12 (AC A10.105)]	_____	_____	_____
3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided? [APB 22, par. 14 (AC A10.107)]	_____	_____	_____
4. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included? [SOP 94-6, par. 11]	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Does the disclosure of the significant accounting policies include a description of the methods and significant assumptions used to determine the fair value of investments and the reported value of insurance contracts? [AAG, par. 3.27]	_____	_____	_____
6. Does the disclosure of the significant accounting policies include the policy regarding the purchase of contracts with insurance companies that are excluded from plan assets? [AAG, par. 3.28e]	_____	_____	_____

#### **B. Certain Significant Estimates**

1. If known information available before the financial statements are issued indicates that: (a) it is at least reasonably possible that the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events, and (b) the effect of the change would be material to the financial statements:			
a. Is disclosure made of the nature of the uncertainty, including an indication that it is at least reasonably possible that a change in the estimate will occur in the near term?	_____	_____	_____
b. If the estimate involves a loss contingency covered by SFAS 5, does the disclosure include an estimate of the possible range of loss, or state that such an estimate cannot be made?	_____	_____	_____
c. Does the disclosure describe the factors that cause the estimate to be sensitive to change? [SOP 94-6, pars. 13 and 14]	_____	_____	_____

### **Other Financial Statement Disclosures**

#### **A. Changes in Accounting**

1. For all changes in accounting principles, are disclosures made in the year of change as to the:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change, including a clear explanation of why the newly adopted principle is preferable?	_____	_____	_____
c. Effect on net additions (deductions) to the plan's net assets? [APB 20, pars. 17 and 19 (AC A06.113 and .115)]	_____	_____	_____
2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, are such disclosures made? If it is not possible to determine such effect, is the reason for not reporting the cumulative effect of the change or the pro forma amounts of prior years disclosed? [APB 20, pars. 19-22 and 25 (AC A06.115-.118 and .121)]	_____	_____	_____
3. Is the correction of an error shown as a prior-period adjustment with disclosure of the following in the period of its discovery and correction?	_____	_____	_____
a. Nature of the error in previously issued financial statements?	_____	_____	_____
b. Effect of its correction on the changes in the net assets available for benefits? [APB 20, par. 37 (AC A35.105)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. For changes in accounting estimates:			
a. If a change in an accounting estimate affects several future periods, is its effect on the change in net assets available for benefits of the current period disclosed? [APB 20, par. 33 (AC A06.132)]	_____	_____	_____
b. If a change in an accounting estimate has no material effect in the period of change but is reasonably certain to materially affect later periods, is the change disclosed in the financial statements of the period of change? [APB 20, par. 38 (AC A06.133)]	_____	_____	_____
5. For a change in reporting entity, such as a merger of two or more plans, are transferred assets reported as a separate line item in the "Statement of Changes in Net Assets," and is the nature of the change and the reason for it disclosed? [APB 20, pars. 34 and 35 (AC A35.112 and .113)]	_____	_____	_____
<b>B. Commitments and Contingencies</b>			
1. Are the nature and amount of accrued loss contingencies, including those related to litigation, claims, and assessments, disclosed as necessary to keep the financial statements from being misleading? [SFAS 5, pars. 9 and 34 (AC C59.108 and .140)]	_____	_____	_____
2. For loss contingencies not accrued, when there is at least a reasonable possibility that a loss may have been incurred or an exposure to loss exists in excess of the amount accrued for a loss contingency, including those related to litigation, claims, and assessments, do disclosures indicate:			
a. Nature of the contingency?	_____	_____	_____
b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? [SFAS 5, pars. 10 and 33–39 (AC C59.109 and .139–.145)]	_____	_____	_____
3. Are the nature and amount of guarantees (e.g., guarantees of indebtedness of others) disclosed even though the possibility of loss may be remote? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1–3 (AC C59.114); EITF 85-20]	_____	_____	_____
<b>C. Current Vulnerabilities Due to Certain Concentrations</b>			
1. Is disclosure including information that is adequate to inform users of the general nature of the risk associated with concentrations in the volume of business transacted with a particular customer, supplier, lender, grantor, or contributor; in revenue from particular products, services, or fund-raising events; in the available sources of supply of materials, labor, or services, or licenses or other rights used in the reporting entity's operations; or in the market or geographic area in which the reporting entity conducts its operations made if, based on information known to management before the financial statements are issued, (a) the concentration existed at the date of the financial statements, (b) made the enterprise vulnerable to the risk of a near-term severe impact, and (c) it is at least reasonably possible that the events that could cause the severe impact will occur in the near term? [SOP 94-6, pars. 21 and 22]	_____	_____	_____

#### D. Derivatives<sup>5</sup>

- |  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 1. If the plan has derivative financial instruments, and has not yet adopted SFAS 133, are the required disclosures of SFAS 119, <i>Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments</i> , made?<br>[SFAS 119, pars. 8–13]  | _____      | _____     | _____      |
| 2. If the plan has derivative financial instruments and has adopted SFAS 133, <i>Accounting for Derivative Instruments and Hedging Activities</i> , <sup>6</sup> as amended by SFAS 137, <i>Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133</i> are the required disclosures of SFAS 133, as amended, made?<br>[SFAS 133, pars. 44 and 45] | _____      | _____     | _____      |

#### E. Description of Defined Contribution Plan

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Do disclosures include a brief, general description of the plan agreement, including, but not limited to, vesting and allocation provisions and the disposition of forfeitures?<br>[AAG, par. 3.28a; SOP 94-6, par. 10] | _____ | _____ | _____ |
|--|-------|-------|-------|

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#### Practice Tip

If material providing this information is otherwise published and made available to participants (e.g., employee handbook), the disclosures required by SFAS 35, paragraph 28a and AAG, paragraph 3.28a can be omitted provided that a reference to the other source is made.

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- |   |       |       |       |
|---|-------|-------|-------|
| 2. Do disclosures include the amount of unallocated assets, as well as the basis used to allocate asset values to participants' accounts when that basis differs from the one used to record assets in the financial statements?<br>[AAG, par. 3.28c] | _____ | _____ | _____ |
|---|-------|-------|-------|

#### F. Description of Plan Amendments

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Do disclosures include a description of significant plan amendments adopted during the year, and the effects of such amendments on net assets if significant either individually or in the aggregate?<br>[SFAS 35, par. 28b (AC Pe5.127b); AAG, par. 3.28b] | _____ | _____ | _____ |
|--|-------|-------|-------|

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<sup>5</sup> SFAS 119 requires disclosures about amounts, nature, and terms of derivative financial instruments that are not subject to SFAS 105 because they do not result in off-balance sheet risk of accounting loss. It requires that a distinction be made between financial instruments held or issued for trading purposes and financial instruments held or issued for purposes other than trading. SFAS 119 requires additional disclosures about those derivative financial instruments held for purposes other than trading, and those accounted for as hedges of anticipated transactions. The required disclosures of SFAS 119 have not been included in the checklist due to the determination that many of the disclosure requirements would not be applicable to defined-contribution plans however if the plan does have these instruments please refer to SFAS 119 for the disclosure requirements.

<sup>6</sup> SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of net assets available for benefits and measure those instruments at fair value. The required disclosures of SFAS 133, as amended, have not been included in the checklist due to the determination that many of the disclosure requirements would not be applicable to defined contribution plans; however, if the plan does have these instruments, please refer to SFAS 133, as amended, for the disclosure requirements. SFAS 133, as amended, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. On March 3, 2000 the FASB issued an exposure draft, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, that would amend FASB Statement No. 133. Readers should be alert to the issuance of a final standard.

## G. Financial Instruments<sup>7</sup>

**Note:** If SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, has been adopted, step 1 below does not apply. In addition, in step 2 below, the phrase "as amended by SFAS 119, paragraph 15a-d" is replaced by "SFAS 133, paragraph 531a-c." SFAS 133, as amended, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000.

On March 3, 2000 the FASB issued an exposure draft, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, that would amend FASB Statement No. 133. Readers should be alert to the issuance of a final standard.

1. If the plan has financial instruments with (a) off-balance-sheet risk, (b) off-balance-sheet credit risk, or (c) significant concentrations of credit risk (except for those excluded in SFAS 105), are the required disclosures made of SFAS 105, *Disclosure of Information About Financial Instruments with Off-Balance Sheet Risk and Financial Statements with Concentrations of Credit Risk*, paragraphs 17, 18, and 20, as amended by SFAS 119, *Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments*, paragraph 14b and d?  
[SFAS 105, pars. 17, 18, and 20, as amended by SFAS 119, par. 14b and d]

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### Practice Tip

SFAS 126, *Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities*, an amendment of FASB Statement No. 107, amends SFAS 107, *Disclosures about Fair Value of Financial Instruments*, to make the disclosures prescribed in SFAS 107 optional for entities that meet all of the following criteria:

- a. The entity is nonpublic.
- b. The entity's total assets are less than \$100 million on the date of the financial statements.
- c. The entity has not held or issued any derivative financial instruments, as defined in SFAS 119, *Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments*, other than loan commitments, during the reporting period.

2. Is the fair value of financial instruments for which it is practicable to estimate that value (except for those excluded in paragraphs 8 and 13 of SFAS 105 and 107) disclosed, in accordance with SFAS 107, *Disclosures about Fair Value of Financial Instruments*, paragraphs 10 through 13, as amended by SFAS 119, paragraph 15a-d?  
[SFAS 107, pars. 10-14, as amended by SFAS 119, par. 15a-d (AC F25.115)]
3. If it is not practicable to estimate the fair market value of a financial instrument are disclosures made in accordance with SFAS 107, as amended, paragraph 14?  
[SFAS 107, as amended, par. 14 (AC F25.115)]

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### Practice Tip

ERISA requires all investments to be valued at fair market value. Although the above disclosure is appropriate for GAAP purposes, it is not accepted by the DOL.

<sup>7</sup> SFAS 105, as amended by SFAS 119, requires plans to disclose information principally about financial instruments with off-balance-sheet risk and concentrations of credit risk. Some examples of financial instruments of employee benefit plans with off-balance sheet risk that are included within the scope of SFAS 105, are obligations to repurchase securities sold, outstanding commitments to purchase or sell financial instruments at predetermined prices, future contracts, and interest rate and foreign currency swaps. SFAS 107, as amended by SFAS 119, requires plans to disclose fair value of financial instruments for which it is practicable to estimate fair value. All the required disclosures of SFASs 105 and 107 have not been included in the checklist due to the determination that many of the disclosure requirements would not be applicable to defined-contribution plans, however, if the plan does have these instruments please refer to SFAS 105, paragraphs 17-20 and SFAS 107, paragraphs 10-14 for the disclosure requirements.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>H. Income Tax Status</b>			
1. If a favorable letter of determination is not obtained or maintained, is the federal income tax status of the plan disclosed? <sup>8</sup> [AAG, par. 3.28f]	_____	_____	_____
<b>I. Plan Terminations</b>			
1. If a decision is made to terminate the plan, or a wasting trust or frozen plan, are all relevant circumstances of this fact disclosed? [AAG, par. 3.47]	_____	_____	_____
2. If a decision is made to terminate the plan before the end of the plan year, are the plan's year-end financial statements prepared on the liquidation basis? [AAG, par. 3.48]	_____	_____	_____
3. If a decision is made to terminate the plan after the end of the plan year but before the financial statements have been issued, is this fact disclosed? [SAS 1, sec. 560.05 (AU 560.05); AAG, par. 3.48]	_____	_____	_____
<b>J. Related-Party Transactions</b>			
1. For related-party transactions, do disclosures include:			
a. The nature of the relationship(s) involved?	_____	_____	_____
b. For each period for which a statement of changes in net assets is presented:			
(1) A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed?	_____	_____	_____
(2) Other information deemed necessary to gain an understanding of the effects of the transactions on the financial statements?	_____	_____	_____
(3) The dollar amount of transactions?	_____	_____	_____
(4) The effects of any changes in the method of establishing the terms from that used in the preceding period?	_____	_____	_____
c. Amounts due from or to related parties as of each "Statement of Net Assets Available for Benefits" presented and, if not otherwise apparent, the terms and manner of settlement?	_____	_____	_____
2. Is the nature of a controlled relationship disclosed (even if there are no transactions between the entities) if the plan and one or more other entities are under common ownership or management control, and the existence of the control could result in operating results or financial position of the plan being significantly different from those that would have resulted if the plan were autonomous? [SFAS 57, pars. 2-4 (AC R36.102-.104)]	_____	_____	_____
3. Are the nature and extent of leasing transactions with related parties appropriately disclosed? [SFAS 13, par. 29 (AC L10.125)]	_____	_____	_____

<sup>8</sup> Reports filed in accordance with the requirements of ERISA must include disclosure of "information concerning whether or not a tax ruling or determination letter has been obtained," which is more than is required by SFAS 35, as amended. [AAG, par. 3.28f]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. If representations about transactions with related parties are made, do they avoid the implication that the related party transactions were consummated at arm's length, or if such implications are made, can they be substantiated? [SFAS 57, par. 3 (AC R36.103)]	_____	_____	_____
5. Do the financial statements include a description of any agreements and transactions with persons known to be parties-in-interest? [AAG, par. 3.28 <i>h</i> and App. A, par. A.51 <i>c</i> ]	_____	_____	_____

#### **Practice Tip**

ERISA defines a party-in-interest generally as any fiduciary or employee of the plan, any person who provides services to the plan, an employer whose employees are covered by the plan, an employee organization whose members are covered by the plan, a person who owns 50 percent or more of such an employer or employee association, or relatives of a person described above.  
[AAG 11.01, App. A, par. A.91, fn. 97; ERISA sec. 3(14)]

#### **K. Subsequent Events**

1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the date of the "Statement of Net Assets Available for Benefits"? [SFAS 5, par. 8 (AC C59.105); SAS 1, sec. 560.03, .04, and .07 (AU 560.03, .04, and .07)]	_____	_____	_____
2. Are subsequent events that provide evidence about conditions that did not exist at the date of the "Statement of Net Assets Available for Benefits," but arose subsequent to that date, adequately disclosed? <sup>9</sup> [SFAS 5, par. 11 (AC C59.112); SAS 1, sec. 560.05-.07 and .09 (AU 560.05-.07 and .09); AAG, pars. 3.28 <i>n</i> and 3.48]	_____	_____	_____

#### **L. Other Matters**

1. Do disclosures include the basis for determining contributions by employers and any changes in such policy during the plan year? [AAG, par. 3.28 <i>d</i> ]	_____	_____	_____
<i>a.</i> If significant costs of plan administration are being absorbed by the employer, is this fact disclosed? [AAG, par. 3.28 <i>d</i> , fn. 12]	_____	_____	_____
<i>b.</i> For a contributory plan, does the disclosure state the method of determining the participants' contributions? [AAG, par. 3.28 <i>d</i> ]	_____	_____	_____
2. Do disclosures include significant real estate or other transactions in which the plan and any of the following parties are jointly involved: (a) the sponsor, (b) the employer(s), or (c) the employee organization(s)? [See also section J, Related-Party Transactions, regarding parties-in-interest.] [AAG, par. 3.28 <i>h</i> ]	_____	_____	_____
3. Do disclosures include the amount and disposition of forfeited non-vested accounts, specifically, identification of those amounts that will be used to reduce future employer contributions? [AAG, par. 3.28 <i>n</i> ]	_____	_____	_____

<sup>9</sup> Also, consider the appropriateness of dual dating the auditor's report for the subsequent event. [SAS 1, sec. 530.05 (AU 530.05)]



## ERISA Reporting Requirements

### A. Form 5500 Series Report

1. Did plans with 100 or more participants at the beginning of the plan year file an annual report (Form 5500) containing financial statements prepared in accordance with either GAAP, or an other comprehensive basis of accounting (OCBOA), such as the cash basis or modified cash basis of accounting, separate schedules, notes (required for a full and fair presentation), and an independent public accountant's report prepared under generally accepted auditing standards?  
[AAG, par. 13.20 and App. A, par. A.18]

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### Practice Tip

DOL regulations permit plans that have between 80 and 120 participants (inclusive) at the beginning of the plan year to complete the Form 5500 in the same category ("large plan" or "small plan") as was filed for the previous year. For 1999, this means that plans with between 80 and 120 participants at the beginning of the plan year that filed a Form 5500-C/R in 1998 could elect to complete the 1999 Form 5500 following the requirements for a "small plan." The Form 5500 is filed with the PWBA in Lawrence Kansas, in accordance with the instructions to the form. (See the FSP section 10,000.20-.22 for a discussion about the newly revised Form 5500.)

### B. Financial Statement Disclosures Required Under the Alternative Method of Compliance for Pension Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA

1. If the financial statements of the pension plan are filed under the "alternative method" pursuant to DOL Regulations Section 2520.103-1(a)(2), do the disclosures in the financial statements include:
  - a. A description of accounting principles and variances from GAAP?
  - b. A description of the plan, including significant changes in the plan, and the effect of the changes on benefits?
  - c. The funding policy and changes in the funding policy from the prior year?
  - d. A description of material lease commitments, and other commitments and contingent liabilities?
  - e. A description of any agreements and transactions with persons known to be parties-in-interest?
  - f. A general description of priorities in the event of plan termination?
  - g. Whether a tax ruling or determination letter has been obtained?
  - h. An explanation of any differences between the separate financial statements and the financial information required on Form 5500?  
[AAG, App. A, par. A.51c]

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### C. Required Financial Statements and Supporting Schedules

1. For plans filing under either method are the following financial statements included and covered by the auditor's report:

- |   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| a. Statement of plan assets and liabilities by category at fair value and in comparative form for the beginning and end of the plan year?   | _____      | _____     | _____      |
| b. Separate or combined statements of plan income and expenses and of changes in net assets?<br>[AAG, App. A, par. A.51a]   | _____      | _____     | _____      |
| 2. On February 2, 2000, the DOL, Internal Revenue Service (IRS), and the Pension Benefit Guarantee Corporation (PBGC) announced the adoption of a substantially revised and improved Form 5500, Annual Return/Report of Employee Benefit Plan. Beginning with the 1999 filing year, the agencies have replaced the Form 5500 Series with one form, the Form 5500, intended to streamline the report and the methods by which it is filed and processed. The 1999 Form 5500 continues to require that certain supplemental schedules be attached to the annual Form 5500 filing. The information reported in these schedules has not changed from prior years. However, reporting has now been standardized in that some of these schedules are now required to be reported on Schedule G, "Financial Transactions Schedules" of Form 5500. Pursuant to DOL regulations, are the following <i>separate schedules</i> included with the financial statements of the plan and covered by the auditor's report: |            |           |            |

### Practice Tip

The instructions to the Form 5500 provide specific information as to the form and content of the various schedule requirements.

- a. The "Schedule of Assets Held for Investment Purposes at End of Year." Does the schedule use the format shown here and is it clearly labeled "Schedule of Assets Held for Investment Purposes At End of Year." (If filing under the alternative method, a separate schedule of assets held at plan year-end and a schedule of certain assets acquired and disposed of within the plan year.)

(a)	(b) Identity of issue, borrower, lessor or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost	(e) Current value
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- b. The "Schedule of Investment Assets Both Acquired and Disposed of Within the Plan Year" (see 2520.103-11). Is the schedule clearly labeled "Schedule of Investment Assets Both Acquired and Disposed of Within the Plan Year" and does it use the following format?

(a) Identity of issue, borrower, lessor or similar party	(b) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(c) Cost of acquisitions	(d) Proceeds of dispositions
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- c. The "Schedule of Reportable Transactions." Is this schedule clearly labeled "Schedule of Reportable Transactions" and does it use the following format?

(a) Identity of party involved	(b) Description of asset (include interest rate and maturity in case of a loan)	(c) Purchase price	(d) Selling price	(e) Lease rental	(f) Expense incurred with transaction	(g) Cost of asset	(h) Current value of asset on transaction date	(i) Net gain or (loss)
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	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. Are the following schedules reported on the Schedule G, <i>Financial Transactions Schedules</i> , of the Form 5500:			
(1) Schedule of Loans or Fixed Income Obligations in Default or Classified as Uncollectible?	_____	_____	_____
(2) Schedule of Leases in Default or Classified as Uncollectible?	_____	_____	_____
(3) Schedule of Nonexempt Transactions?	_____	_____	_____

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# FSP Section 8300

## *Auditors' Report Checklist*

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

### .02 Explanation of References:

AAG =	AICPA Audit and Accounting Guide <i>Audits of Employee Benefit Plans</i> —with conforming changes as of May 1, 2000
SAS =	AICPA Statement on Auditing Standards
AU =	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
SSARS =	AICPA Statements on Standards for Accounting and Review Services
AR =	Reference to section number in <i>AICPA Professional Standards</i> (vol. 2)
DOL =	Department of Labor
CFR =	Code of Federal Regulations

### .03 Checklist Questionnaire:

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Is each financial statement audited, specifically identified in the introductory paragraph of the auditor's report? [SAS 58, par. 6 (AU 508.06)]	_____	_____	_____
2. Do the titles of the financial statements referred to in the introductory paragraph of the auditor's report match the titles of the financial statements presented? [Generally Accepted]	_____	_____	_____
3. Do the dates of the financial statements referred to in the introductory paragraph of the auditor's report match the dates of the financial statements presented? [Generally Accepted]	_____	_____	_____
4. Is the report appropriately addressed? [SAS 58, par. 9 (AU 508.09)]	_____	_____	_____
5. Does the auditor's report include:			
a. A title that includes the word "independent"? [SAS 58, par. 8a (AU 508.08a)]	_____	_____	_____
b. A statement that the financial statements identified in the report were audited? [SAS 58, par. 8b (AU 508.08b)]	_____	_____	_____
c. A statement that the financial statements are the responsibility of management and that the auditor's responsibility is to express an opinion on the financial statements based on his or her audit? [SAS 58, par. 8c (AU 508.08c)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. A statement that the audit was conducted in accordance with generally accepted auditing standards? [SAS 58, par. 8d (AU 508.08d)]	_____	_____	_____
<i>or</i>			
e. If the plan prepares its financial statements on a comprehensive basis of accounting other than GAAP:			
(1) Does the report include a paragraph that—			
(a) States the basis of presentation and refers to the note to the financial statements that describes the basis?	_____	_____	_____
(b) States that the basis of presentation is a comprehensive basis of accounting other than generally accepted accounting principles?	_____	_____	_____
(c) Expresses the auditor's opinion (or disclaims an opinion) on whether the financial statements are presented fairly, in all material respects, in conformity with the basis of accounting described?	_____	_____	_____
(2) If the auditor concludes that the financial statements are not presented fairly on the basis of accounting described or if there has been a limitation on the scope of the audit, does the report:			
(a) Disclose (in a paragraph preceding the opinion paragraph) all the substantive reasons for that conclusion?	_____	_____	_____
(b) Include in the opinion paragraph the appropriate modifying language and a reference to such explanatory paragraph(s)? [SAS 62, par. 5d and e (AU 623.05d and e)]	_____	_____	_____
f. A statement that generally accepted auditing standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement? [SAS 58, par. 8e (AU 508.08e)]	_____	_____	_____
g. A statement that an audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation? [SAS 58, par. 8f (AU 508.08f)]	_____	_____	_____
h. A statement that the auditor believes that his or her audit provides a reasonable basis for his or her opinion? [SAS 58, par. 8g (AU 508.08g)]	_____	_____	_____
i. An opinion as to whether the financial statements present fairly, in all material respects, the financial position of the reporting entity as of the balance sheet date and the results of its operations and its cash flows for the period then ended in conformity with generally accepted accounting principles? [SAS 58, par. 8h (AU 508.08h)]	_____	_____	_____
j. The manual or printed signature of the auditor's firm? [SAS 58, par. 8i (AU 508.08i)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
k. The date (or dual dates) <sup>1</sup> of the audit report? [SAS 58, par. 8j (AU 508.08j)]	_____	_____	_____

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**Practice Tip**

DOL Regulations require the auditor's report to be dated and manually signed and to identify the city and state where issued.

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6. If a subsequent event disclosed in the financial statements occurs after completion of field work but before the issuance of the auditor's report, has the need for dual-dating of the report been considered? [SAS 1, sec. 530, pars. 3–5 (AU 530.03–.05)]	_____	_____	_____
7. If the auditor is not independent, is a compilation report indicating the lack of independence issued? [SAS 26, par. 10 (AU 504.10); SSARS 1, pars. 22 and 38 (AR 100.22 and .38)]	_____	_____	_____
8. Does the report include appropriate language for the following situations:			
a. Only one basic financial statement is presented and there are no scope limitations? [SAS 58, pars. 33 and 34 (AU 508.33 and .34)]	_____	_____	_____
b. Audited and unaudited financial statements are presented in comparative form? [SAS 26, pars. 14–17 (AU 504.14–.17)]	_____	_____	_____
c. The financial statements of the plan contain supplemental schedules relating to ERISA and DOL Regulations? [AAG, pars. 13.10–13.19]	_____	_____	_____

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**Practice Tip**

The Guide includes additional auditor reports with respect to “financial statements of a trust” and “inadequate procedures to value investments.”  
[AAG, pars. 13.31 and 13.36]

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*Explanatory Paragraphs*

9. If the opinion is based in part on the report of another auditor:			
a. Does the introductory paragraph of the standard report disclose the fact that the opinion is based, in part, on the report of other auditors?	_____	_____	_____
b. Does the opinion paragraph include a reference to the report of the other auditor? [SAS 58, pars. 11a, 12, and 13 (AU 508.11a, .12, and .13)]	_____	_____	_____
10. If, to prevent the financial statements from being misleading because of unusual circumstances, the financial statements contain a departure from an accounting principle promulgated by a body designated by the AICPA Council to establish such principles, does the report include, in a separate paragraph or paragraphs, the information required by the rule? [SAS 58, pars. 11b and 15 (AU 508.11b and .15)]	_____	_____	_____

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<sup>1</sup> If a subsequent event is disclosed, the appropriateness of dual dating the report should be considered. [SAS 1, sec. 530.05 (AU 530.05)]



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
11. If there is substantial doubt about the entity's ability to continue as a going concern:			
a. Does the report include an explanatory paragraph, following the opinion paragraph, to reflect that conclusion?	_____	_____	_____
b. Is that conclusion expressed through the use of the phrase "substantial doubt about its (the entity's) ability to continue as a going concern" or similar wording that includes the terms substantial doubt and going concern? [SAS 58, par. 11c (AU 508.11c); SAS 59, as amended by SAS 64, par. 12 (AU 341.12)]	_____	_____	_____

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**Practice Tip**

In a going concern paragraph, the auditor should not use conditional language in expressing a conclusion concerning the existence of substantial doubt about the entity's ability to continue as a going concern. See SAS 77 for an example. [SAS 59, as amended by SAS 64 and SAS 77, par. 13]

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12. If there has been a material change between periods in accounting principles or in the method of their application that has a material effect on the comparability of the reporting entity's financial statements:			
a. Does the report include an explanatory paragraph, following the opinion paragraph, that refers to the change?	_____	_____	_____
b. Does the explanatory paragraph identify the nature of the change and refer the reader to the note to the financial statements that discusses the change in detail? [SAS 58, as amended by SAS 79, pars. 11d and 16 (AU 508.11d and .16)]	_____	_____	_____

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**Practice Tip**

SAS No. 88 clarifies that the auditor need not add a consistency paragraph to the auditor's report when a change in the reporting entity results from a transaction or event. However, the auditor would still be required to express a qualified or adverse opinion because of the departure from GAAP. [SAS No. 88, par. 4 (AU 420.08)]

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13. In an updated report, the opinion is different from the opinion previously expressed on the financial statements of a prior period:			
a. Does the report include an explanatory paragraph, preceding the opinion paragraph, that discloses all of the substantive reasons for the different opinion?	_____	_____	_____
b. Does the explanatory paragraph disclose:			
(1) The date of the auditor's previous report?	_____	_____	_____
(2) The type of opinion previously expressed?	_____	_____	_____
(3) The circumstances or events that caused the auditor to express a different opinion?	_____	_____	_____
(4) That the auditor's updated opinion on the financial statements of the prior period is different from his or her previous opinion on those statements? [SAS 58, as amended by SAS 79, pars. 11e and 69 (AU 508.11e and .69)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
14. If financial statements of a prior period (presented for comparative purposes) have been audited by a predecessor auditor whose report is not presented:			
a. Does the introductory paragraph of the report indicate:			
(1) That the financial statements of the prior period were audited by another auditor?	_____	_____	_____
(2) The date of the predecessor auditor's report?	_____	_____	_____
(3) The type of report issued by the predecessor auditor?	_____	_____	_____
(4) If the report was other than a standard report, the substantive reasons therefor, including a description of the nature of and reasons for the explanatory paragraph added to the predecessor's report or his or her opinion qualification?	_____	_____	_____
b. If the financial statements have been restated, does the introductory paragraph indicate that the predecessor auditor reported on the financial statements of the prior period before restatement? [SAS 58, as amended by SAS 79, pars. 11e and 74 (AU 508.11e and .74)]	_____	_____	_____
15. If supplementary information required by the FASB has been omitted, the presentation of such information departs materially from FASB guidelines, the auditor is unable to complete prescribed procedures with respect to such information, or the auditor is unable to remove substantial doubt about whether the supplementary information conforms to FASB guidelines, does the report include an additional paragraph stating that fact? [SAS 58, par. 11g (AU 508.11g); SAS 52, par. 8 (AU 558.08)]	_____	_____	_____
16. If other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements, has it been determined whether the financial statements, the auditor's report, or both require revision? [SAS 58, par. 11h (AU 508.11h); SAS 8, par. 4 (AU 550.04)]	_____	_____	_____
17. If the auditor decides to emphasize a matter regarding the financial statements in the report, is the explanatory information presented in a separate paragraph that avoids use of phrases such as "with the foregoing (following) explanation"? [SAS 58, pars. 11 and 19, as amended by SAS 79 (AU 508.11 and .19); Interpretation 3 of SAS 1, sec. 410 (AU 9410.18); Interpretation 1 of SAS 57 (AU 9342.03)]	_____	_____	_____
18. If the decision has been made to terminate a plan:			
a. Is the auditor's report modified by the addition of an explanatory paragraph that states that the plan is being terminated and that the financial statements (including the benefit information disclosures presented) have been prepared on a liquidation basis? [AAG, par. 13.39]	_____	_____	_____
b. Does the explanatory paragraph state that the plan has changed the basis of accounting used to determine the amounts at which assets, liabilities, and benefit information are presented from the ongoing plan basis to a liquidation basis if the financial statements are presented along with financial statements of a period prior to adoption of a liquidation basis? [Interpretation 8 of SAS 58 (AU 9508.35)]	_____	_____	_____

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**Practice Tip**

DOL Regulation Section CFR 2520 requires that the auditor separately identify any exceptions to his or her report that are the result of DOL Regulations.

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*Departures From Unqualified Opinions*

- |   |                            |                            |                            |
|---|----------------------------|----------------------------|----------------------------|
| <p>19. If it has not been possible to conduct the audit in accordance with GAAS or to apply all of the procedures considered necessary in the circumstances, has consideration been given to the need to issue a qualified opinion or to disclaim an opinion?<br/>[SAS 58, as amended by SAS 79, par. 22 (AU 508.22)]</p> | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> |
| <p>20. If a qualified opinion is to be expressed because of a scope limitation:</p>   |                            |                            |                            |
| <p><i>a.</i> Are all of the substantive reasons for the qualification disclosed in one or more explanatory paragraphs preceding the opinion paragraph?</p>  | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> |
| <p><i>b.</i> Does the qualified opinion include the word <i>except</i> or <i>exception</i> in a phrase such as <i>except for</i> or <i>with the exception of</i>?</p>   | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> |
| <p><i>c.</i> Is the situation described and referred to in both the scope and opinion paragraphs?</p>   | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> |
| <p><i>d.</i> Does the wording in the opinion paragraph indicate that the qualification pertains to the possible effects on the financial statements and not the scope limitation itself?<br/>[SAS 58, as amended by SAS 79, pars. 22–27 (AU 508.22–.27)]</p>  | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> |
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**Practice Tips**

Scope limitations include situations in which the auditor is unable to obtain sufficient evidential matter to support management’s assertions about the nature of a matter involving an uncertainty and its presentation or disclosure in the financial statements. [SAS 58, as amended by SAS 79, par. 31]

If a plan auditor concludes that information about the nature of the services provided by a service organization that are part of the plan’s information system, and the service organization’s controls over those services, is not available to obtain a sufficient understanding to plan the audit, it would be considered a scope limitation.  
[SAS 70 as amended by SAS 88, par.9]

Consult the Topical Index to the AICPA *Professional Standards* under “Scope of Audit — Limitations” for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.

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- |   |                            |                            |                            |
|---|----------------------------|----------------------------|----------------------------|
| <p>21. If an opinion is disclaimed because of a scope limitation:</p>   |                            |                            |                            |
| <p><i>a.</i> Are all of the substantive reasons for the disclaimer stated in a separate paragraph or paragraphs?</p>  | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> |
| <p><i>b.</i> Does the report state that the scope of the audit was not sufficient to warrant the expression of an opinion?</p>  | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> |
| <p><i>c.</i> Does the report avoid identifying procedures that were performed?</p>  | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> |
| <p><i>d.</i> Is the scope paragraph omitted?</p>  | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> |
| <p><i>e.</i> If there are reservations about fair presentation of the financial statements in conformity with GAAP, are they described in the report?<br/>[SAS 58, as amended by SAS 79, par. 63 (AU 508.63)]</p> | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> | <hr style="width: 50px;"/> |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
22. If the financial statements are materially affected by a departure from GAAP (including inadequate disclosure, inappropriate accounting principles, and unreasonable accounting estimates), has consideration been given to the need to issue a qualified opinion or an adverse opinion? <sup>2</sup> [SAS 58, as amended by SAS 79, par. 35 (AU 508.35)]	_____	_____	_____
23. If a qualified opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons that have led to the conclusion that there is a departure from GAAP disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the qualified opinion include the word <i>except</i> or <i>exception</i> in a phrase such as <i>except for</i> or <i>with the exception of</i> and a reference to the explanatory paragraph?	_____	_____	_____
c. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so? [SAS 58, as amended by SAS 79, pars. 37 and 38 (AU 508.37 and .38)]	_____	_____	_____
24. If an adverse opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons for the adverse opinion disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	_____	_____	_____
b. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so?	_____	_____	_____
c. State that the financial statements do not present fairly the financial position, or results of operations or cash flows in conformity with GAAP? [SAS 58, as amended by SAS 79, pars. 58 and 59 (AU 508.58 and .59)]	_____	_____	_____
25. If a limited scope audit is performed pursuant to DOL Regulations 29 CFR section 2520.103-8, is a disclaimer of opinion expressed? [AAG, pars. 13.26–13.30]	_____	_____	_____

#### Practice Tip

Consult the Topical Index to the AICPA *Professional Standards* under “Departures from Established Principles,” “Adverse Opinions,” and “Qualified Opinions” for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion.

26. If information accompanies the basic financial statements and auditor’s report in an auditor-submitted document, does the report on the accompanying information:			
a. State that the audit is performed for the purpose of forming an opinion on the basic financial statements taken as a whole?	_____	_____	_____

<sup>2</sup> The auditor should express a qualified or an adverse opinion if the auditor concludes that (a) a matter involving a risk or an uncertainty is not adequately disclosed, (b) the accounting principles used cause the financial statements to be materially misstated when the inability to make a reasonable estimate raises questions about the appropriateness of the accounting principles used, and (c) management’s estimate is unreasonable and that its effect is to cause the financial statements to be materially misstated. [SAS 58, as amended by SAS 70, pars. 46–49]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Specifically identify the accompanying information?	_____	_____	_____
c. State that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?	_____	_____	_____
d. State whether the accompanying information was subjected to the auditing procedures applied in the audit of the basic financial statements and includes the appropriate expression of opinion or disclaimer? [SAS 29, pars. 6–11 (AU 551.06–.11)]	_____	_____	_____
e. State that the supplemental schedules are the responsibility of the plan’s management? ( <i>Recommended but not a required disclosure.</i> ) [AAG, par. 13.11]	_____	_____	_____

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**Practice Tip**

Step 26 above does not apply to limited-scope audits pursuant to DOL Regulations 29 CFR section 2520.103-8. In these situations, see Step 25 above and AAG paragraph 13.26.

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27. Auditor’s report requirements under DOL regulations:

a. Is the auditor’s report dated and manually signed? [AAG, App. A, fn. 88]	_____	_____	_____
b. Does it indicate the city and state where issued? [AAG, App. A, fn. 88]	_____	_____	_____
c. Does it identify the statements and schedules covered? [AAG, App. A, fn. 88]	_____	_____	_____
d. Does it disclose any omitted auditing procedures deemed necessary by the auditor and the reasons for their omission?	_____	_____	_____
e. State clearly the auditor’s opinion of the financial statements and schedules covered by the report, and the accounting principles and practices reflected therein?	_____	_____	_____
f. State clearly the consistency of the application of the accounting principles between the current year and the preceding year or as to any changes in such principles which have a material effect on the financial statements? [AAG, App. A, par. A.50a; DOL Regulations, sec. 29 CFR 2520; SFAS 107, par. 15C (AC F25)]	_____	_____	_____
g. State clearly any matters to which the auditor takes exception, the exception, and to the extent practical, the effect of such matter on the related financial statements? [29 CFR 2520.103-1(iv)]	_____	_____	_____
(1) Are the exceptions, if any, further identified as (a) those that are the result of DOL regulations, and (b) all others? [AAG, App. A, par. A.50a; DOL Regulations, sec. 29 CFR 2520]	_____	_____	_____

# FSP Section 8400

## *Illustrative Financial Statements and Auditor's Reports*

.01 This section illustrates certain applications of the provisions of chapter 3 of the Audit and Accounting Guide *Audits of Employee Benefit Plans* (the Guide), that apply for the annual financial statements of the following hypothetical plans:

- XYZ Company 401(k) Plan (full scope audit) [section 8400.17–.19]
- Alpha Company 401(k) Employee Savings Plan (limited scope audit with supplemental schedules—together with auditor's report) [section 8400.20–.25]
- XYZ Company Profit-Sharing Plan [section 8400.26–.28]
- ABC Company Profit-Sharing Plan (with auditor's report) [section 8400.29–.32]
- Sponsor Company Employee Stock Ownership Plan [section 8400.33–.35]

It does not illustrate other provisions of chapter 3 of the Guide that might apply in circumstances other than those assumed in this example. The formats presented and the wording of accompanying notes are only illustrative and are not necessarily the only possible presentations. The illustrative financial statements have not been revised to reflect the provisions of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS 137, *Accounting for Derivative Instruments and Hedging Activities—Deferral of Effective Date of FASB Statement No. 133*.

.02 Although generally accepted accounting principles (GAAP) do not require comparative financial statements, ERISA requires a comparative statement of net assets available for benefits. The illustrative financial statements are intended to comply with the ERISA requirements for comparative statements.

.03 ERISA and DOL regulations require that certain information be included in supplemental schedules, which are not required under GAAP, and reported on by the independent auditor. See the Alpha Company 401(k) Employee Savings Plan for an illustration of certain of the supplemental schedules.

.04 This section also includes the following illustrative auditor's reports:

- Unqualified opinion for profit-sharing plan (full scope audit) [section 8400.05]
- Modified opinions on the supplemental schedules because of omitted information or an omitted schedule [section 8400.06–.09]
- Modified opinions on the supplemental schedules because disclosures of a material prohibited transaction with a party in interest is omitted [section 8400.10–.13]
- Limited-scope opinions [section 8400.14–.16]

The following is an illustration of an auditor's report with an **unqualified opinion** on the financial statements of a profit-sharing plan.

.05

Independent Auditor's Report

[Addressee]

We have audited the accompanying statements of net assets available for benefits of XYZ Company Profit-Sharing Plan as of December 31, 20X1 and 20X0, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X1. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 20X1 and 20X0, and the changes in net assets available for benefits for the year ended December 31, 20X1 in conformity with generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of [identify] are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.<sup>1</sup>

[Signature of Firm]

[City and State]

[Date]

[AAG, pars. 13.06, 13.11, and 13.12]

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<sup>1</sup> This paragraph on the supplemental schedules required by ERISA and DOL regulations may also be shown separately in the auditor-submitted document.

The following are illustrations of paragraphs that should be added to the auditor's report when the auditor should modify his or her report on the supplemental schedules because of omitted information or an omitted schedule which is required under DOL regulations.

.06

**Modified Report—Omitted Information or Omitted  
Schedule Required Under DOL Regulations**

Independent Auditor's Report

[Addressee]

[Same first, second, and third paragraphs as the standard report.]

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [identify] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The schedule of assets held for investment purposes that accompanies the Plan's financial statements does not disclose the historical cost of certain nonparticipant directed plan assets held by the Plan trustee [or custodian]. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

or

The Plan has not presented the schedule of reportable transactions (transactions in excess of 5 percent of the current value of plan assets at the beginning of the year). Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.17]



The following paragraphs should be added to the auditor's report when the auditor concludes that his or her opinion on the supplemental schedules should be qualified because a schedule, or information thereon, was omitted (when the schedules are not covered by a trustee's certification as to completeness and accuracy), or because information in a required schedule is materially inconsistent with the financial statements.

.07

**Qualified Opinion—Omitted or Incomplete  
Schedule or Material Inconsistency**

Independent Auditor's Report

[Addressee]

[Same first, second, and third paragraphs as the standard report.]

The schedule of assets held for investment purposes that accompanies the Plan's financial statements does not disclose that the Plan had loans to participants which are considered assets held for investment purposes. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [identify] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, except for the omission of the information discussed in the preceding paragraph, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.17]

In the following illustration, the schedule of assets held for investment purposes which accompanies the Plan's financial statements does not disclose that the Plan has loans to participants. Because the omitted participant loan information is information that is not certified by the trustee or custodian, an omission of participant loan information would require that a qualified or adverse opinion be issued on the applicable supplemental schedules.

.08

**Modified Report—Omitted Information or Omitted Schedule  
Required Under DOL Regulations in a Limited Scope Engagement**

Independent Auditor's Report

[Addressee]

[Same first and second paragraphs as the limited-scope report.]

The schedule of assets held for investment purposes that accompanies the Plan's financial statements does not disclose that the Plan has loans to participants which are considered assets held for investment purposes. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and schedules taken as a whole. The form and content of the information included in the financial statements and schedules, other than that derived from the information certified by the trustee, have been audited by us in accordance with generally accepted auditing standards and, in our opinion, except for the omission of the information discussed in the preceding paragraph, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.17]

*or*

In the following illustration, the Plan has not presented the schedule of reportable transactions. Because the schedule of reportable transactions is information that is certified by the trustee or custodian, an omission of the schedule would require that an explanatory paragraph be added to the auditor's report.

.09

Independent Auditor's Report

[Addressee]

[Same first, second, and third paragraphs as the limited-scope report.]

The Plan has not presented the schedule of reportable transactions (transactions in excess of 5 percent of the current value of plan assets at the beginning of the year). Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.17]

The following paragraphs should be added to the auditor's report on the plan's financial statements when the auditor concludes that his or her opinion on the supplemental schedules should be modified because disclosures of a material prohibited transaction with a party in interest is omitted.

.10

**Qualified Opinion—Disclosure of Material Prohibited  
Transaction With Party in Interest Omitted**

Independent Auditor's Report

[Addressee]

[Same first, second, and third paragraphs as the standard report.]

The schedule of prohibited transactions that accompanies the plan's financial statements does not disclose that the Plan [*describe prohibited transaction*]. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules [*identify*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, except for the omission of the information discussed in the preceding paragraph, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.18]

**Adverse Opinion—Disclosure of Material Prohibited  
Transaction With Party in Interest Omitted**

Independent Auditor's Report

[Addressee]

[Same first, second, and third paragraphs as the standard report.]

The schedule of prohibited transactions that accompanies the plan's financial statements does not disclose that the Plan [*describe prohibited transaction*]. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [*identify*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, because of the omission of the information discussed in the preceding paragraph are not fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.18]

The following paragraphs should be added to the auditor's report on the plan's financial statements when the auditor decides to modify his or her report on the supplemental schedules because disclosure of a prohibited transaction with a party in interest that is **not material** to the financial statements has been omitted.

.12

**Modified Report—Disclosure of Immaterial Prohibited  
Transaction With Party in Interest Omitted**

Independent Auditor's Report

[Addressee]

[Same first, second, and third paragraphs as the standard report.]

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [identify] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The schedule of prohibited transactions that accompanies the plan's financial statements does not disclose that the Plan [describe prohibited transaction]. Disclosure of this information, which is not considered material to the financial statements taken as a whole, is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.18]

The following is an example of a qualified opinion issued on the financial statements of a profit-sharing plan, and the related supplemental schedules, when the auditor concludes that the plan has entered into a prohibited transaction with a party in interest that is also considered a related-party transaction and is material to the financial statements, and the transaction has not been properly disclosed in the notes to the financial statements and the required supplemental schedule.

.13

### Independent Auditor's Report

[Addressee]

We have audited the accompanying statement of net assets available for benefits of XYZ Company Profit-Sharing Plan as of December 31, 20X1 and 20X0, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X1. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Plan's financial statements do not disclose that the Plan [*describe related-party transaction*]. Disclosure of this information is required by generally accepted accounting principles.

In our opinion, except for the omission of the information discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 20X1 and 20X0, and the changes in net assets available for benefits for the year ended December 31, 20X1 in conformity with generally accepted accounting principles.

The schedule of prohibited transactions that accompanies the plan's financial statements does not disclose that the plan [*describe prohibited transaction*]. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [*identify*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, except for the omission of the information discussed in the preceding paragraph, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.19]

The following are illustrations of **Limited-Scope** auditor reports.

.14

Independent Auditor's Report

[Addressee]

We were engaged to audit the financial statements and supplemental schedules of XYZ Pension Plan as of December 31, 20X1 and 20X0, and for the year ended December 31, 20X1, as listed in the accompanying index. These financial statements and supplemental schedules are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee (or custodian) of the Plan, except for comparing such information with the related information included in the financial statements and supplemental schedules. We have been informed by the plan administrator that the trustee (or custodian) holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee (or custodian) as of December 31, 20X1, and for the year ended December 31, 20X1 that the information provided to the plan administrator by the trustee (or custodian) is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and schedules taken as a whole. The form and content of the information included in the financial statements and schedules, other than that derived from the information certified by the trustee or custodian, have been audited by us in accordance with generally accepted auditing standards and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[Signature of Firm]

[City and State]

[Date]

[AAG, par. 13.26]



The following illustrates a report on comparative financial statements of a 401(k) plan when the plan administrator elects not to limit the scope of the audit in the current year even though the scope of the audit in the prior year was limited in accordance with DOL.

.15

### **Limited-Scope Audit in Prior Year**

#### **Independent Auditor's Report**

[Addressee]

We have audited the accompanying statements of net assets available for benefits of XYZ Company 401(k) Plan as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as explained in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, investment assets held by ABC Bank, the trustee of the Plan, and transactions in those assets were excluded from the scope of our audit of the Plan's 20X1 financial statements, except for comparing the information provided by the trustee, which is summarized in Note X, with the related information included in the financial statements.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the Plan's financial statements as of December 31, 20X1. The form and content of the information included in the 20X1 financial statements, other than that derived from the information certified by the trustee, have been audited by us and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

In our opinion, the financial statements, referred to above, of XYZ Company 401(k) Plan as of December 31, 20X2, and for the year then ended present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 20X2, and the changes in net assets available for benefits for the year then ended in conformity with generally accepted accounting principles.

Our audit of the Plan's financial statements as of and for the year ended December 31, 20X2, was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of [identify] are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended December 31, 20X2, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Signature of Firm]

[City and State]

[Date]

The following illustrates a report on comparative financial statements of a 401(k) plan when the plan administrator elects to exclude from the auditor's examination plan assets held by banks or insurance companies in the current year, whereas the scope of the audit in the prior year was unrestricted.

.16

### **Limited-Scope Audit in Current Year**

#### **Independent Auditor's Report**

[Addressee]

We were engaged to audit the accompanying statement of net assets available for benefits of XYZ Company 401(k) Plan as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2 and the supplemental schedules of (1) assets held for investment purposes at end of year, (2) transactions in excess of 5 percent of the current value of plan assets, and (3) investments in loans and fixed income obligations in default or classified as uncollectible as of or for the year ended December 31, 20X2. These financial statements are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee of the Plan, except for comparing the information with the related information included in the 20X2 financial statements and the supplemental schedules. We have been informed by the plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee as of and for the year ended December 31, 20X2, that the information provided to the plan administrator by the trustee is complete and accurate.

Because of the significance of the information in the Plan's 20X2 financial statements that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and supplemental schedules as of or for the year ended December 31, 20X2. The form and content of the information included in the financial statements and supplemental schedules, other than that derived from the information certified by the trustee, have been audited by us in accordance with generally accepted auditing standards and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

We have audited the statement of net assets available for benefits of XYZ Company 401(k) Plan as of December 31, 20X1, and in our report dated May 20, 20X2, we expressed our opinion that such financial statement presents fairly, in all material respects, the net assets available for benefits of XYZ Company 401(k) Plan as of December 31, 20X1, in conformity with generally accepted accounting principles.

[Signature of Firm]

[City and State]

[Date]

**XYZ COMPANY 401(K) PLAN**  
**Statement of Net Assets Available for Benefits**

	<i>December 31,</i>	
	<u>20X1</u>	<u>20X0</u>
<b>Assets</b>		
Investments (See Note C)	\$9,177,000	\$7,995,000
Receivables:		
Employer contribution	14,000	10,000
Participant contributions	52,000	50,000
Total receivables	66,000	60,000
Total assets	9,243,000	8,055,000
<b>Liabilities</b>		
Accounts payable	10,000	20,000
Accrued expenses	15,000	—
Total liabilities	25,000	20,000
Net assets available for benefits	<u>\$9,218,000</u>	<u>\$8,035,000</u>

See accompanying notes to the financial statements.

**XYZ Company 401(k) Plan**  
**Statement of Changes in Net Assets Available for Benefits**

	<i>Year Ended</i> <i>December 31, 20X1</i>
Additions:	
Additions to net assets attributed to:	
Investment income:	
Net appreciation in fair value	
of investments (see Note C)	\$ 279,000
Interest	439,000
Dividends	165,000
	<u>883,000</u>
Less investment expenses	(50,000)
	<u>833,000</u>
Contributions:	
Participant	900,000
Employer	699,000
	<u>1,599,000</u>
Total additions	<u>2,432,000</u>
Deductions:	
Deductions from net assets attributed to:	
Benefits paid to participants	1,144,000
Administrative expenses (see Note F)	105,000
Total deductions	<u>1,249,000</u>
Net increase	1,183,000
Net assets available for benefits:	
Beginning of year	<u>8,035,000</u>
End of year	<u>\$9,218,000</u>

See accompanying notes to the financial statements.

## XYZ COMPANY 401(K) PLAN

### Notes to Financial Statements

#### A. Description of Plan

The following description of the XYZ Company ("Company") 401(k) Plan (Plan) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

1. **General.** The Plan is a defined contribution plan covering all full-time employees of the Company who have one year of service and are age twenty-one or older. It is subject to the provisions of the Employee Retirement Income Security Act (ERISA).
2. **Contributions.** Each year, participants may contribute up to 12 percent of pretax annual compensation, as defined in the Plan. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans. Participants direct the investment of their contributions into various investment options offered by the Plan. The Plan currently offers two mutual funds and an insurance investment contract as investment options for participants. The Company contributes 25 percent of the first 6 percent of base compensation that a participant contributes to the Plan. The matching Company contribution is invested directly in XYZ Company common stock. Additional profit sharing amounts may be contributed at the option of the Company's board of directors and are invested in a portfolio of investments as directed by the Company. Contributions are subject to certain limitations.
3. **Participant Accounts.** Each participant's account is credited with the participant's contribution and allocations of (a) the Company's contribution and (b) Plan earnings, and charged with an allocation of administrative expenses. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.
4. **Vesting.** Participants are vested immediately in their contributions plus actual earnings thereon. Vesting in the Company's contribution portion of their accounts is based on years of continuous service. A participant is 100 percent vested after five years of credited service.
5. **Participant Loans.** Participants may borrow from their fund accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50 percent of their account balance, whichever is less. The loans are secured by the balance in the participant's account and bear interest at rates that range from 6 percent to 10 percent, which are commensurate with local prevailing rates as determined quarterly by the Plan administrator. Principal and interest is paid ratably through monthly payroll deductions.
6. **Payment of Benefits.** On termination of service due to death, disability, or retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account, or annual installments over a ten-year period. For termination of service for other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum distribution.
7. **Forfeited Accounts.** At December 31, 20X1 forfeited nonvested accounts totaled \$7,500. These accounts will be used to reduce future employer contributions. Also, in 20X1, employer contributions were reduced by \$5,000 from forfeited nonvested accounts.

## B. Summary of Accounting Policies

### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

### *Investment Valuation and Income Recognition*

The Plan's investments are stated at fair value except for its benefit-responsive investment contract, which is valued at contract value (Note E). Quoted market prices are used to value investments. Shares of mutual funds are valued at the net asset value of shares held by the Plan at year end.

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date.

### *Payment of Benefits*

Benefits are recorded when paid.

## C. Investments

The following presents investments that represent 5 percent or more of the Plan's net assets.

	<i>December 31,</i>	
	<i>20X1</i>	<i>20X0</i>
XYZ Company common stock, 400,000 and 390,000 shares, respectively	\$ 470,000*	\$ 420,000*
ABC Corporation common stock, 390,000 and 380,000 shares, respectively	490,000*	450,000*
Prosperity Investments Common Stock Fund, 226,250 and 200,000 shares, respectively	2,262,500*	2,000,000*
Prosperity Investments Balanced Fund, 40,000 and 210,000 shares, respectively	1,422,000	2,100,000
Investment Contract with National Insurance Company, #2012A, matures 12/31/X5 (Note E)	1,500,000	650,000

\* Nonparticipant-directed

During 20X1, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by \$279,000 as follows:

Mutual funds	\$229,000
Common stock	30,000
Corporate bond	30,000
U.S. Government Securities	(10,000)
	<u>\$279,000</u>

## D. Nonparticipant-Directed Investments

Information about the net assets and the significant components of the changes in net assets relating to the nonparticipant-directed investments is as follows:

	<i>December 31,</i>	
	<i>20X1</i>	<i>20X0</i>
Net Assets:		
Common stock	\$ 960,000	\$ 870,000
Mutual funds	2,262,500	2,000,000
Corporate bonds	307,500	255,000
U.S. Government Securities	225,000	120,000
	<u>\$3,755,000</u>	<u>\$3,245,000</u>

	<i>Year Ended</i> <u>December 31, 20X1</u>
Changes in Net Assets:	
Contributions	\$699,000
Dividends	165,000
Net appreciation	60,000
Benefits paid to participants	(280,000)
Transfers to participant-directed investments	(134,000)
	<u>\$510,000</u>

#### **E. Investment Contract with Insurance Company**

In 20X0, the Plan entered into a benefit-responsive investment contract with National Insurance Company (National). National maintains the contributions in a general account. The account is credited with earnings on the underlying investments and charged for participant withdrawals and administrative expenses. The contract is included in the financial statements at contract value as reported to the Plan by National. Contract value represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value.

There are no reserves against contract value for credit risk of the contract issuer or otherwise. The average yield and crediting interest rates were approximately 8 percent for 20X1 and 20X0. The crediting interest rate is based on a formula agreed upon with the issuer, but may not be less than 4 percent. Such interest rates are reviewed on a quarterly basis for resetting.

#### **F. Related-Party Transactions**

Certain Plan investments are shares of mutual funds managed by Prosperity Investments. Prosperity Investments is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions. Fees paid by the Plan for the investment management services amounted to \$105,000 for the year ended December 31, 20X1.

#### **G. Plan Termination**

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants would become 100 percent vested in their employer contributions.

#### **H. Tax Status**

The Internal Revenue Service has determined and informed the Company by a letter dated August 30, 1986, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). Although the Plan has been amended since receiving the determination letter, the Plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

Independent Auditor's Report

To the Pension Committee and Participants of the  
Alpha Company 401(k) Employee Savings Plan:

We were engaged to audit the accompanying statements of net assets available for benefits of the Alpha Company 401(k) Employee Savings Plan (the "Plan") as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2 and the supplemental schedule of assets held for investment purposes at end of year as of or for the year ended December 31, 20X2. These financial statements and supplemental schedule are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note 5, which was certified by ABC Bank, the trustee of the Plan, except for comparing such information with the related information included in the 20X2 and 20X1 financial statements and supplemental schedules. We have been informed by the plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee as of December 31, 20X2 and 20X1 and for the year ended December 31, 20X2, that the information provided to the plan administrator by the trustee is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and supplemental schedule taken as a whole. The form and content of the information included in the financial statements and supplemental schedule, other than that derived from the information certified by the trustee, have been audited by us in accordance with generally accepted auditing standards and, in our opinion, are presented in compliance with the Department of Labor Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

As described in Note 7, as of December 31, 20X2, a portion of the plan's assets were spun-off to create the Alpha Company Profit Sharing and 401(k) Retirement Plan for Part-Time Employees.

[Signature of Firm]

[City and State]

[Date]



**ALPHA COMPANY 401(k)**  
**EMPLOYEE SAVINGS PLAN**  
**Statement of Net Assets Available for Benefits**

	<i>December 31,</i>	
	<u>20X2</u>	<u>20X1</u>
Investments (See Notes 3 and 5)	\$27,546,166	\$37,604,618
Contributions receivable:		
Employer		45,826
Participant		236,286
Total contributions receivable		<u>282,112</u>
Net assets available for benefits		<u>\$37,886,730</u>

The accompanying notes are an integral part of these financial statements.

**ALPHA COMPANY 401(k)  
EMPLOYEE SAVINGS PLAN  
Statement of Changes in Net Assets Available for Benefits**

	<i>Year Ended December 31, 20X2</i>
<b>ADDITIONS:</b>	
Contributions:	
Participants	\$ 2,515,156
Employer	<u>386,598</u>
Total contributions	<u>2,901,754</u>
Investment income:	
Net appreciation in fair value of investments (See Notes 3 and 5)	3,481,804
Interest and dividend income	<u>2,464,140</u>
Total investment income	<u>5,945,944</u>
Total additions	<u>8,847,698</u>
<b>DEDUCTIONS:</b>	
Benefits paid to participants	5,141,476
Other expenses	<u>10,540</u>
Total deductions	<u>5,152,016</u>
<b>NET INCREASE</b>	<u>3,695,682</u>
<b>NET ASSETS AVAILABLE FOR BENEFITS:</b>	
Beginning of year	<u>\$37,886,730</u>
End of year, before transfer of plan assets to Alpha Company profit sharing and 401(k) retirement plan for part-time employees	\$41,582,412
Transfer of plan assets to Alpha Company profit sharing and 401(k) retirement plan for part-time employees	<u>(13,860,804)</u>
Net assets available for plan benefits after transfer to Alpha Company profit sharing and 401(k) retirement plan for part-time employees	<u>\$27,721,608</u>

The accompanying notes are an integral part of these financial statements.

**ALPHA COMPANY 401(K)  
EMPLOYEE SAVINGS PLAN**

**Notes to Financial Statements and Schedules**

**December 31, 20X2 and 20X1**

**1. Description**

The following description of the Alpha Company 401(k) Employee Savings Plan (the "Plan") is provided for general information purposes only. More complete information regarding the Plan's provisions may be found in the plan document.

**General.** The Plan is a defined contribution plan established by the Alpha Company (the "Company") under the provision of Section 401(a) of the Internal Revenue Code ("IRC"), which includes a qualified cash or deferred arrangement as described in section 401(k) of the IRC, for the benefit of eligible employees of the Company. All employees of the Company who have completed one year of service, as defined, are eligible to participate, provided they are at least 21 years of age. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")

**Plan Administration.** The Plan is administered by the Pension Committee which is appointed by the board of directors of the Company. The Plan's trustee, ABC Bank (the "Trustee"), is responsible for the custody and management of the Plan's assets.

**Contributions.** Eligible employees can contribute from 1 percent to 8 percent of their compensation as defined by the Plan, subject to certain limitations under the IRC. The Company provides a mandatory matching contribution equal to 50 percent of each participant's contribution up to a maximum of 6 percent of the participant's compensation and an additional contribution, which may be made on a discretionary basis, dependent on the Company's operating results. The participant contributions and the company matching contributions may be allocated to five mutual funds or the DEF Bank GIC fund as the participant directs.

**Vesting.** Participants are fully vested in their contributions and the earnings thereon. Vesting in employer matching contributions and the earnings thereon is based on years of continuous service. A participant vests according to the following schedule:

Less than two years	0%
Two years	25
Three years	50
Four years	75
Five or more years	100

Forfeitures are used to reduce employer matching contributions.

**Payment of Benefits.** On retirement, death, disability, or termination of service, a participant (or participant's beneficiary in the event of death) may elect to receive a lump-sum distribution equal to the participant's vested account balance. In addition, hardship distributions are permitted if certain criteria are met.

**Participant Accounts.** Individual accounts are maintained for each of the Plan's participants to reflect the participant's contributions and related employer matching contributions, as well as the participant's share of the Plan's income and any related administrative expenses. Allocations of income and expenses are based on the proportion that each participant's account balance bears to the total of all participant account balances.

**Participant Loans.** Effective April 15, 20X2, a participant may borrow from his or her account a minimum of \$500 up to a maximum equal to the lesser of \$50,000 or 50 percent of their vested

account balance. Loan terms range from one to five years. The loans are secured by the balance in the participant's account and bear interest at a rate of prime plus 1 percent. Interest rates range from 8 percent to 12 percent principal and interest are paid through payroll deductions. A \$50 loan application fee is charged to the participant's pretax account.

## 2. Summary of Significant Accounting Policies

### *Basis of Accounting and Use of Estimates*

The accompanying financial statements are prepared on the accrual basis of accounting. The preparation of the financial statements in conformity with generally accepted accounting principles requires the Plan's management to use estimates and assumptions that affect the accompanying financial statements and disclosures. Actual results could differ from these estimates.

### *Income Recognition*

Interest income is recorded as earned on the accrual basis. Dividend income is recorded on the ex-dividend date.

### *Investment Valuation*

Mutual funds are stated at fair value as determined by quoted market prices, which represents the net asset value of shares held by the plan at year end. The DEF Bank GIC Fund is presented at contract value, which approximates its fair value. Participant notes receivable are valued at cost which approximates fair value.

### *Net Appreciation (Depreciation in Fair Value of Investments)*

Net realized and unrealized appreciation (depreciation) is recorded in the accompanying statement of changes in net assets available for benefits as net appreciation in fair value of investments.

Brokerage fees are added to the acquisition costs of assets purchased and subtracted from the proceeds of assets sold.

### *Administrative Expenses*

Certain expenses incurred in connection with the general administration of the Plan are paid by the Plan and are recorded in the accompanying statement of changes in net assets available for benefits as other expenses.

## 3. Investments

The following presents investments that represent 5 percent or more of the Plan's net assets:

	<i>December 31,</i>	
	<i>20X2</i>	<i>20X1</i>
DEF Bank GIC Fund, 15,096,829, and 8,538,036 units, respectively	\$15,096,929	\$8,538,036
ABC Bank Growth Fund, 314,881, and 352,416 units, respectively	2,575,903	2,882,760
ABC Bank Balanced Fund, 604,941, and 648,687 units, respectively	7,004,561	7,784,250

During 20X2, the Plan's mutual fund investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by \$3,481,804.

## 4. Tax Status

Although the Plan has received a favorable determination letter dated April 30, 20X3 from the Internal Revenue Service, it has not been updated for the latest plan amendments. However, the

plan administrator believes that the Plan is designed and is being operated in compliance with the applicable requirements of the IRC. Therefore, the plan administrator believes that the Plan was qualified and the related trust was tax-exempt for the years ended December 31, 20X2 and 20X1.

## 5. Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of plan termination, participants will become fully vested in their account balances.

## 6. Information Certified by the Plan's Trustee

The plan administrator has elected the method of annual reporting compliance permitted by 29 CFR 2520.103-8 of the Department of Labor Rules and Regulations for Reporting and Disclosure under ERISA. Accordingly, the Trustee has certified that the following data included in the accompanying financial statements and supplemental schedules is complete and accurate.

	<i>December 31,</i> <u>20X2</u>	<u>20X1</u>
Investments, at fair value		
Mutual funds	\$11,844,737	\$29,066,582
DEF Bank GIC fund	15,096,829	8,538,036
Participant notes receivable	604,600	0
Total	<u>\$27,546,166</u>	<u>\$37,604,618</u>

	<i>Year Ended</i> <i>December 31, 20X2</i>
Investment income:	
Interest and dividends	\$2,464,140
Net appreciation in fair value of investments	<u>3,481,804</u>
Total investment income	<u>\$5,945,944</u>

The Plan's independent accountants did not perform auditing procedures with respect to this information, except for comparing such information to the related information included in the financial statements and supplemental schedules.

## 7. Reconciliation to Form 5500

As of December 31, 20X2, the Plan had approximately \$10,544 of pending distributions to participants who elected to withdraw from the Plan. This amount is recorded as a liability in the Plan's Form 5500 however, this amount is not recorded as a liability in the accompanying statements of net assets available for benefits in accordance with generally accepted accounting principles.

## 8. Plan Spin-Off

Effective December 31, 20X2, the participant accounts for the part-time employees-electronic operations of Alpha Company were spun-off to create the Alpha Company Profit Sharing and 401(k) Retirement Plan for part-time employees. As of December 31, 20X2, assets related to the participants of the Alpha Company Profit Sharing and 401(k) Retirement Plan for part-time employees were transferred out of the plan.

SCHEDULE I

ALPHA COMPANY 401(K)  
EMPLOYEE SAVINGS PLAN  
Schedule of Assets Held For Investment Purposes at End of Year  
December 31, 20X2

<i>Identify of Issuer, Borrower, Lessor, or Similar Party</i>	<i>Description of Investment, Including Maturity Date, Rate of Interest, Collateral, Par, or Maturity Value</i>	<i>Cost</i>	<i>Current Value</i>
* DEF Bank	DEF Bank GIC Fund (15,096,829 units)	**	\$15,096,829
* ABC Bank	ABC Bank Income Fund (152,345 units)	**	1,377,304
* ABC Bank	ABC Bank Growth Fund (314,881 units)	**	2,575,903
* ABC Bank	ABC Bank Balanced Fund (604,941 units)	**	7,004,561
* ABC Bank	ABC Bank International Equity Fund (55,061 units)	**	473,401
* ABC Bank	ABC Bank Small Companies Fund (36,713 units)	**	413,568
* Participants	Participant Notes Receivable	**	604,600
	Total investments	**	\$27,546,166

\* Represents a party in interest.

\*\* Cost omitted for participant directed investments.

The accompanying notes are an integral part of this schedule.

The above information has been certified by ABC Bank, the Trustee, as complete and accurate.

# Profit-Sharing Plan

## XYZ COMPANY PROFIT-SHARING PLAN

### Statements of Net Assets Available for Benefits

	December 31,	
	20X1	20X0
<b>Assets</b>		
Investments:		
At fair value—(Notes B, C, and E)		
U.S. government securities	\$ 455,000	\$ 425,000
Corporate bonds and debentures	3,900,000	3,730,000
Common stocks	2,822,000	1,931,000
Certificates of deposit	1,000,000	1,000,000
	<u>8,177,000</u>	<u>7,086,000</u>
At contract value—(Note D)		
Investment contract with insurance company	1,000,000	1,000,000
Total investments	<u>9,177,000</u>	<u>8,086,000</u>
Receivables:		
Employer's contribution	14,000	12,000
Participants' contributions	52,000	47,000
Due from broker for securities sold	403,000	357,000
Accrued interest and dividends	77,000	62,000
	<u>546,000</u>	<u>478,000</u>
Cash	<u>280,000</u>	<u>198,000</u>
Total assets	<u>10,003,000</u>	<u>8,762,000</u>
<b>Liabilities</b>		
Accounts payable	10,000	8,000
Accrued expenses	100,000	150,000
Due to broker for securities purchased	75,000	63,000
Total liabilities	<u>185,000</u>	<u>221,000</u>
Net assets available for benefits	<u>\$9,818,000</u>	<u>\$8,541,000</u>

The accompanying notes are an integral part of these financial statements.

**XYZ COMPANY PROFIT-SHARING PLAN**  
**Statement of Changes in Net Assets Available for Benefits**

	<i>Year Ended December 31, 20X1</i>
<b>Additions to net assets attributed to:</b>	
Investment income:	
Net appreciation in fair value of investments (Note C)	\$ 269,000
Interest	449,000
Dividends	165,000
	<u>883,000</u>
Less investment expenses	(50,000)
	<u>833,000</u>
Contributions:	
Employer's	1,014,000
Participants'	585,000
	<u>1,599,000</u>
Total additions	<u>2,432,000</u>
<b>Deductions from net assets attributed to:</b>	
Benefits paid to participants	1,050,000
Administrative expenses	105,000
Total deductions	<u>1,155,000</u>
Net increase	1,277,000
<b>Net assets available for plan benefits:</b>	
Beginning of year	<u>8,541,000</u>
End of year	<u><u>\$9,818,000</u></u>

The accompanying notes are an integral part of these financial statements.



## XYZ COMPANY PROFIT-SHARING PLAN

### Notes to Financial Statements

#### A. Description of Plan

The following description of the XYZ Company ("Company") Profit-Sharing Plan ("Plan") provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

1. **General.** The Plan is a defined contribution plan covering all full-time employees of the Company who have one year of service and are age twenty-one or older. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).
2. **Contributions.** Each year, the Company contributes to the Plan 10 percent of its current profits before pension and profit-sharing costs and income taxes. Additional amounts may be contributed at the option of the Company's board of directors. Participants may contribute up to 10 percent of their annual wages before bonuses and overtime. Contributions are subject to certain limitations.
3. **Participant Accounts.** Each participant's account is credited with the participant's contribution and an allocation of (a) the Company's contribution, (b) Plan earnings, and (c) forfeitures of terminated participants' nonvested accounts and charged with an allocation of administrative expenses. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.
4. **Vesting.** Participants are immediately vested in their voluntary contributions plus actual earnings thereon. Vesting in the Company contributions portion of their accounts plus earnings thereon is based on years of continuous service. A participant is 100 percent vested after five years of credited service.
5. **Payment of Benefits.** On termination of service due to death, disability or retirement, a participant may elect to receive an amount equal to the value of the participant's vested interest in his or her account in either a lump-sum amount, or in annual installments over a ten year period. For termination of service due to other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum distribution.
6. **Forfeited Accounts.** At December 31, 20X1 forfeited accounts totaled \$10,000. These accounts will be reallocated to participants in the same manner as employer contributions.

#### B. Summary of Accounting Policies

##### *Basis of Accounting*

The financial statements of the Plan are prepared under the accrual method of accounting.

##### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

##### *Investment Valuation and Income Recognition*

The Plan's investments are stated at fair value except for its investment contract which is valued at contract value with an insurance company (Note D). If available, quoted market prices are used to value investments. The amounts shown in Note C for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at fair value. In

general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock less an appropriate discount. If a quoted market price for unrestricted common stock of the issuer is not available restricted common stocks are valued at a multiple of current earnings less an appropriate discount. The multiple chosen is consistent with multiples of similar companies based on current market prices. Certificates of deposit are valued based on amortized cost or original cost plus accrued interest.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

#### *Payment of Benefits*

Benefits are recorded when paid.

### **C. Investments**

Except for its investment contract with an insurance company (Note D), the Plan's investments are held in a bank-administered trust fund. The following table presents investments. Investments that represent 5 percent or more of the Plan's net assets are separately identified.

	<i>December 31,</i>	
	<i>20X1</i>	<i>20X0</i>
Investments at Fair Value as Determined by		
Quoted Market Price		
U.S. government securities	\$ 455,000	\$ 425,000
Corporate bonds and debentures:		
National Auto 7%, face value of \$860,000 and		
\$1,000,000, respectively, bonds due 12/31/X5	875,000	1,226,000
Other	2,775,000	2,328,000
Common stocks:		
Bizco Corporation, 100,000 and 90,000 shares,		
respectively	950,000	685,000
Other	1,497,000	981,000
	<u>6,552,000</u>	<u>5,645,000</u>
Investments at Estimated Fair Value		
Certificates of Deposit	1,000,000	1,000,000
Corporate bonds and debentures	250,000	176,000
Common stocks	375,000	265,000
	<u>1,625,000</u>	<u>1,441,000</u>
Investment at Contract Value		
Investment contract with National Insurance		
Company, #2012A, matures 12/31/X2 (Note D)	1,000,000	1,000,000
Total investments	<u>\$9,177,000</u>	<u>\$8,086,000</u>

During 20X1 the Plan's investments (including investments bought, sold, and held during the year) appreciated in value by \$269,000 as follows:

<b>Net Change in Fair Value</b>	
	<i>Year Ended December 31, 20X1</i>
Investments at Fair Value as Determined by Quoted Market Price	
U.S. government securities	\$ (15,000)
Corporate bonds and debentures	(175,000)
Common stocks	<u>439,000</u>
Net change in fair value	<u>249,000</u>
Investments at Estimated Fair Value	
Corporate bonds and debentures	(5,000)
Common stocks	<u>25,000</u>
	<u>20,000</u>
Net change in fair value	<u>\$269,000</u>

#### **D. Investment Contract With Insurance Company**

In 20X0, the Plan entered into an investment contract with National Insurance Company (National). National maintains the contributions in a pooled account. The account is credited with earnings on the underlying investments and charged for Plan withdrawals and administrative expenses charged by National. The contract is included in the financial statements at contract value, (which represents contributions made under the contract, plus earnings, less withdrawals and administrative expenses) because it is fully benefit responsive. For example, participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value. There are no reserves against contract value for credit risk of the contract issuer or otherwise. The fair value of the investment contract at December 31, 20X1 and 20X0 was \$1,082,000 and \$1,040,000, respectively. The average yield and crediting interest rates were approximately five percent for 20X1 and 20X0. The crediting interest rate is based on an agreed-upon formula with the issuer, but cannot be less than zero.

#### **E. Certificates of Deposit**

Certificates of deposit at December 31, 20X1 and 20X0 consist of amounts on deposit at banks or savings and loan associations, with interest rates ranging from 5.4 percent to 9.1 percent, with maturities of three months or less. These deposits include \$400,000 and \$500,000 which are in excess of federally insured limits at December 31, 20X1 and 20X0, respectively.

#### **F. Plan Termination**

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100 percent vested in their accounts. Any unallocated assets of the plan shall be allocated to participant accounts and distributed in such a manner as the company may determine.

#### **G. Tax Status**

The Internal Revenue Service has determined and informed the Company by letter dated August 30, 20XX, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). The Plan has been amended since receiving the determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable provisions of the IRC.

#### H. Reconciliation of Financial Statements to 5500

The following is a reconciliation of net assets available for benefits per the financial statements at December 31, 20X1 and 20X0 to Form 5500:

	<u>20X1</u>	<u>20X0</u>
Net assets available for benefits per the financial statements	\$9,818,000	\$8,541,000
Amounts allocated to withdrawing participants	<u>(50,000)</u>	<u>(35,000)</u>
Net assets available for benefits per the Form 5500	<u>\$8,768,000</u>	<u>\$8,506,000</u>

The following is a reconciliation of benefits paid to participants per the financial statements for the year ended December 31, 20X1, to Form 5500:

Benefits paid to participants per the financial statements	\$1,050,000
Add: Amounts allocated to withdrawing participants at December 31, 20X1	50,000
Less: Amounts allocated to withdrawing participants at December 31, 20X0	<u>(35,000)</u>
Benefits paid to participants per Form 5500	<u>\$1,065,000</u>

Amounts allocated to withdrawing participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to December 31, 20X1, but not yet paid as of that date.

Independent Auditor's Report

To the Pension Committee  
of the ABC Company Profit-Sharing Plan:

We have audited the accompanying statements of net assets available for benefits of ABC Company Profit-Sharing Plan (the Plan) as of December 31, 20X2 and 20X1, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 20X2 and 20X1, and the changes in its net assets available for benefits for the years then ended, in conformity with generally accepted accounting principles.

*[Signature of Firm]*

*[City and State]*

*[Date]*

**ABC COMPANY PROFIT SHARING PLAN**  
**Statements of Net Assets Available for Benefits**  
(In thousands)

	<i>December 31,</i>	
	<u>20X2</u>	<u>20X1</u>
<b>Assets</b>		
Investment in master trust	\$3,568,966	\$2,885,456
Loans to participants	189,314	181,056
	<u>3,758,280</u>	<u>3,066,512</u>
<b>Receivables</b>		
Contributions from ABC Company	156,000	156,354
Other	2,966	2,672
Interest and dividends	2,222	1,758
Net assets available for benefits	<u>\$3,919,468</u>	<u>\$3,227,296</u>

The accompanying notes are an integral part of these financial statements.

**ABC COMPANY PROFIT SHARING PLAN**  
**Statements of Changes in Net Assets Available for Benefits**  
**Years Ended December 31, 20X2 and 20X1**

(In thousands)

	<i>December 31,</i> <u>20X2</u>	<u>20X1</u>
<b>Additions</b>		
Contributions		
Participants	\$ 165,704	\$ 158,792
ABC Company	156,000	156,354
Forfeitures	<u>3,802</u>	<u>4,446</u>
Total contributions	<u>325,506</u>	<u>319,592</u>
Income from investment in master trust	<u>605,204</u>	<u>50,640</u>
<b>Deductions</b>		
Withdrawals	227,202	220,606
Administrative fees	<u>3,118</u>	<u>3,564</u>
Total deductions	<u>230,320</u>	<u>224,170</u>
Net additions	<u>700,390</u>	<u>146,062</u>
Net assets available for benefits at beginning of year	3,227,296	3,223,610
Transfer to other plans	(8,218)	(142,376)
Net assets available for benefits at end of year	<u><u>\$3,919,468</u></u>	<u><u>\$3,227,296</u></u>

The accompanying notes are an integral part of these financial statements.

**ABC Company Profit-Sharing Plan**  
**Notes to Financial Statements**

**A. Summary of Significant Accounting Policies**

*Basis of Accounting*

The accompanying financial statements are prepared on the accrual basis of accounting.

*Investment in Master Trust*

The Investment in the Master Trust Fund is stated at fair value. The majority of investment values are ascertained from national security exchanges. ABC Company Common Stock, which is traded on national securities exchanges, and other equity securities, are valued within the Master Trust Fund at the last reported sales price on the last business day of the Plan year. All government and corporate debentures are valued at the last reported sales price on the last business day of the Plan year on a national security exchange plus any accrued interest within the Master Trust Fund. If there are no such sales or listings on a national security exchange, alternative sources are used. Loans to participants are stated at cost which approximates fair value.

*Withdrawals and Exchanges*

Withdrawals and exchanges between investment fund options by participants are recorded based upon the specific proceeds and cost of the investment at the date of withdrawal or exchange.

*Reclassification of Prior Year Information*

Certain prior year information has been reclassified to conform with current year presentation.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**B. Description of Plan**

ABC Company Profit-Sharing Plan (the Plan) was authorized by the Board of Directors of ABC Company and was effective January 1, 20XX for the benefit of certain employees of ABC Company and its subsidiaries (the Company). The Plan is a defined contribution profit-sharing plan maintained primarily for the purpose of providing retirement income for participants and is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Prior to July 20X2, employees become eligible to participate in the Plan upon completion of two years of service or, if the employee is 21 years of age or older, upon the completion of one year of service. Effective July 1, 20X2, employees become eligible to participate in the Plan upon completion of one year of service regardless of age. This eligibility change in the Plan did not have a material effect. Employees represented by labor organizations are not eligible to participate in the Plan unless the Company and the labor organization specifically agree to the contrary.

Plan participants may make personal deposits to the Plan on either or both a tax deferred and an after-tax basis. Company contributions to the Plan are set each year at the discretion of the Company's Board of Directors for the prior Plan year and are irrevocable. The Company contributions and forfeitures are first used to restore the previously forfeited accounts of rehired



participants pursuant to Plan provisions. The remainder of such contributions and forfeitures are then allocated to Plan participants, as described below: one third is allocated among participants who made personal deposits to the Plan, pro rata, based upon the amounts of their deposits of up to 6 percent of compensation. Two thirds are allocated among participants as follows: (i) each participant who has received compensation in excess of the Social Security wage base for the year is allocated an amount equal to such excess times the maximum amount allowable under Code Section 401(l); and (ii) any amount remaining is allocated among all participants in proportion to the total compensation of each for the year. Allocations to collective bargaining unit employees are offset by obligations of the Company to contribute to a collective bargaining unit plan. A participant's 20X2 compensation in excess of \$140,000 (adjusted periodically) is excluded in determining the amount of Company contribution and forfeitures allocated to the participant.

Company contributions made on behalf of participants that are not based upon deposits made by such participants vest on a graduated schedule. For all participants who perform at least one hour of service in any year beginning on or after January 1, 20XX, the schedule commences with 25 percent at three years of service and increases annually to full vesting at five years of service. Personal deposits of participants and Company contribution allocations based upon personal deposits of participants fully vest immediately.

The Plan presently maintains four investment fund options within the Master Trust in which participants may invest.

Participants may apportion their deposits between more than one investment fund option and can change their current deposit investment mix as often as desired. Existing participant account balances can be exchanged between investment fund options once per day.

Each participant's share of the Company contribution and forfeitures is automatically invested according to their current deposit investment mix.

Participants not making personal deposits may specify an investment option for the Company contribution. If a specification is not made, the Company contribution will be invested in the Company Stock Fund.

Usual and customary investment manager fees, trustee fees, and all outside administrative costs are paid by the Plan.

Upon separation from service, participants can elect to withdraw balances either in a lump sum or in installments, or the balances can be left in the Plan. Individuals who transferred amounts to the Plan which are attributable to the former ABC Company Retirement Plan may receive their entire Plan account balance as a deferred annuity. Active employees may withdraw after-tax personal deposits at any time, but may only withdraw tax deferred personal deposits upon the occurrence of an extreme financial hardship. Participants may also obtain loans from the Plan within certain limits.

### **C. Investments in Master Trust**

The Plan's assets are held by Responsible Trust Company, the Trustee of the Plan, which executes all transactions therein under the direction of the Benefit Plans Committee. The assets are held in a Master Trust, commingled with assets of the Company's other benefit plans. The Company's benefit plans participating in the Master Trust collectively own, through the Master Trust, the assets based upon investment percentages. Participant transaction activity is designated to specific plans. Accordingly, each plan's investment percentage in the Master Trust changes regularly. Income earned by the Master Trust is allocated to the various plans based upon the investment percentage on the day the income is earned. At December 31, 20X2 and 20X1, the plan's interest in the master trust was approximately 57 percent and 54 percent, respectively.

The following table presents the fair values of investments for the Master Trust and the Plan's percentage interest in each investment:

	<i>December 31,</i>			
	<u>20X2</u>		<u>20X1</u>	
Common Stock	1,008,746	7%	744,877	7%
Corporate Bonds	854,772	8%	803,191	8%
Debt Investments	3,921,062	35%	3,287,780	33%
U.S. Government Securities	551,762	7%	665,458	6%
	<u>\$6,336,342</u>		<u>\$5,501,306</u>	

Investment income for the master trust is as follows:

	<i>December 31,</i>			
	<u>20X2</u>		<u>20X1</u>	
Net appreciation (depreciation) in fair value of investments:				
Common Stock	\$ 24,712	7%	\$ 9,086	7%
Corporate Bonds	114,423	8%	(199,053)	8%
Debt Investments	707,501	35%	(123,446)	33%
U.S. Government Securities	114,904	7%	15,023	6%
Total	<u>961,540</u>		<u>(298,390)</u>	
Interest:				
Corporate Bonds	3,808	8%	3,205	8%
Debt Investments	3,360	35%	2,828	33%
U.S. Government Securities	15,234	7%	12,819	6%
Total	<u>22,402</u>		<u>18,852</u>	
Dividends From Common Stock	30,060	7%	22,300	7%
Total	<u>\$1,014,002</u>		<u>\$(257,238)</u>	

#### D. Asset Transfers

The Twinkle division was sold during 20X1. Plan assets totaling \$142,376,936 for those participants continuing employment with Twinkle were transferred to Twinkle Retirement Plan in 20X1. The 20X1 Company contribution attributable to those participants totaling \$8,218,054 was transferred to the Twinkle Retirement Plan in 20X2, shortly following payment of the contribution in March 20X2. Twinkle is not administered by or affiliated with ABC Company.

#### E. Financial Instruments

**Note:** This note will be updated to reflect the provisions of SFAS 133, as amended, closer to the Statement's effective date.

Certain Plan investment managers invest in derivative foreign exchange forward contracts for purposes of hedging or moderating the currency risks associated with holding investments denominated in foreign currencies. Foreign exchange forward contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed-upon price, on an agreed-upon settlement date. Contracts are generally taken for periods ranging from 30 to 90 days, then renewed, generally, if the Plan continues to hold the underlying foreign investment. Each investment manager's usage of such derivative financial instruments is limited by the Plan's contractual investment guidelines which prohibit the speculative or leveraged use of derivatives.

Foreign exchange forward contracts are stated at fair value in the Statements of Net Assets Available for Benefits, which represents the amounts that the Plan would be required to pay, at December 31, 20X2, to cancel the contracts or transfer them to other parties.

The notional or contract amounts of foreign exchange forward contracts are not recorded as assets or liabilities on the Statements of Net Assets Available for Benefits and do not represent the potential gain or loss associated with such transactions.

At December 31, 20X2, the Plan had the following open foreign exchange forward contracts (In thousands of dollars):

Forward Contracts to Sell Foreign Currencies and Buy US Dollars:

	<i>Notional Amount</i>	<i>Fair Value</i>
Corporate Bond Fund	\$ 97,402	\$ (38)
Debt Fund	191,982	192
	<u>\$289,384</u>	<u>\$154</u>

Forward Contracts to Buy Foreign Currencies and Sell US Dollars:

	<i>Notional Amount</i>	<i>Fair Value</i>
Corporate Bond Fund	\$ 65,190	\$(250)
Debt Fund	124,582	(524)
	<u>\$189,772</u>	<u>\$(774)</u>

Credit risk represents the Plan's potential loss on foreign exchange forward contracts if all counterparties to such contracts fail to perform according to the terms of the contract. Credit risk is calculated using year-end currency exchange rates. Historically, there have not been any losses associated with counterparty non-performance on foreign exchange forward contracts. Exposure to loss on these contracts will increase or decrease over the lives of the contracts as currency exchange rates fluctuate.

At December 31, 20X2, credit risk related to these contracts was as follows (In thousands of dollars):

Corporate Bond Fund	\$ 498
Debt Fund	1,170
	<u>\$1,668</u>

#### **F. Income Tax Status**

The Internal Revenue Service ruled on May 15, 20X2 that the Plan qualifies under Section 401(a) of the Internal Revenue Code (IRC) and, therefore, the underlying trust is not subject to tax under IRC Section 501(a). Once qualified, the Plan is required to operate in conformity with the IRC to maintain its qualification. The Plan Administrator is not aware of any course of action or series of events that have occurred that might adversely affect the Plan's qualified status.

#### **G. Plan Termination**

Although it has not expressed any interest to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become fully vested in their accounts.

#### **H. Transactions With Parties-in-interest**

During 20X2 and 20X1, the ABC Company Stock Fund received \$8,441,804 and \$6,124,664, respectively, in common stock dividends from ABC Company.

#### **I. Subsequent Event**

ABC Company is plan sponsor for XYZRP (XYZ Company Retirement Plan), a frozen retirement plan which is maintained for members of XYZRP who had balances in the plan when ABC Company

merged with XYZ Company, Inc. in 19W0. The Plan was established January 1, 19W1 and since that time no employee or employer contributions have been made to XYZRP for plan years subsequent to 19W0. Of the approximately 28,600 XYZRP participants, over 24,000 also have Plan accounts. Recently, members of XYZRP were balloted to determine their desire to merge XYZRP with the Plan. The voting effort was completed June 15, 20X3 with a large majority of XYZRP members voting in favor of the merger. Based on that outcome, XYZRP will be merged into the Plan effective August 31, 20X3. As of July 15, 20X3, XYZRP assets are approximately \$2.6 billion. Plan features will not change as a result of the merger.

## Employee Stock Ownership Plan

## SPONSOR COMPANY STOCK OWNERSHIP PLAN

## Statements of Net Assets Available for Benefits\*

	December 31,					
	20X2			20X1		
	<i>Allocated</i>	<i>Unallocated</i>	<i>Total</i>	<i>Allocated</i>	<i>Unallocated</i>	<i>Total</i>
<b>Assets:</b>						
Investment in sponsor company common stock, at fair value	\$34,890,000	\$57,430,000	\$ 92,320,000	\$24,568,000	\$ 47,015,000	\$71,583,000
<b>Receivables:</b>						
Employer contributions	—	8,607,000	8,607,000	—	7,062,000	7,062,000
Dividends and interest	570,000	459,000	1,029,000	280,000	3,000	283,000
Cash and cash equivalents	156,000	863,000	1,019,000	101,000	448,000	549,000
Total assets	<u>\$35,616,000</u>	<u>\$67,359,000</u>	<u>\$102,975,000</u>	<u>\$24,949,000</u>	<u>\$ 54,528,000</u>	<u>\$79,477,000</u>
<b>Liabilities:</b>						
Interest payable	—	1,396,000	1,396,000	—	1,033,000	1,033,000
Loan payable	—	73,970,000	73,970,000	—	80,000,000	80,000,000
Total liabilities	<u>—</u>	<u>75,366,000</u>	<u>75,366,000</u>	<u>—</u>	<u>81,033,000</u>	<u>81,033,000</u>
Net assets available (deficit) for plan benefits	<u>\$35,616,000</u>	<u>\$(8,007,000)</u>	<u>\$ 27,609,000</u>	<u>\$24,949,000</u>	<u>\$(26,505,000)</u>	<u>\$ (1,556,000)</u>

The accompanying notes are an integral part of these financial statements.

\* The columns reflected in the example are appropriate for the presentation of a leveraged ESOP. For a non-leveraged ESOP, the presentation would reflect only the total column without the segregation between allocated and unallocated.

Allocated and unallocated designations distinguish between assets that belong to plan participants and those that are still available as collateral for the ESOP loan. Under ERISA, the lender has access to the securities held by the plan, that represent unallocated employer contributions to service the debt, and any earnings on those amounts. Earnings on temporary cash investments also are available to the lender.

An accrued employer contribution for current or future debt service is, therefore, reflected on the Statement of Net Assets Available for Benefits and the Statement of Changes in Net Assets Available for Benefits in the Unallocated column. In contrast, an employer contribution accrued to fund distributions to terminated participants is reflected in the Allocated column.

This distinction is *not* reflected in the participant account balances when reporting to the participant under ERISA. Contributions accrued for future debt service are allocated to the accounts of plan participants.

## SPONSOR COMPANY STOCK OWNERSHIP PLAN

## Statement of Changes in Net Assets

## Available for Benefits

	<i>December 31, 20X2</i>		
	<i>Allocated</i>	<i>Unallocated</i>	<i>Total</i>
Investment income			
Net unrealized appreciation in market value of investments	\$ 9,205,000	\$15,052,000	\$24,257,000
Interest	31,000	58,000	89,000
Dividends	1,380,000	2,184,000	3,564,000
Employer contributions	—	11,524,000	11,524,000
Allocation of 142,000 shares of common stock of Sponsor Company, at market	<u>4,637,000</u>	<u>—</u>	<u>4,637,000</u>
	<u>15,253,000</u>	<u>28,818,000</u>	<u>44,071,000</u>
Interest expense	—	5,683,000	5,683,000
Distributions to participants	4,586,000	—	4,586,000
Allocation of 142,000 shares of common stock of Sponsor Company, at market	<u>—</u>	<u>4,637,000</u>	<u>4,637,000</u>
Total deductions	<u>4,586,000</u>	<u>10,320,000</u>	<u>14,906,000</u>
Net increase	10,667,000	18,498,000	29,165,000
Net assets (deficit) available for benefits:			
Beginning of year	<u>24,949,000</u>	<u>(26,505,000)</u>	<u>(1,556,000)</u>
End of year	<u>\$35,616,000</u>	<u>\$ (8,007,000)</u>	<u>\$27,609,000</u>

The accompanying notes are an integral part of these financial statements.

## SPONSOR COMPANY STOCK OWNERSHIP PLAN

### Notes to Financial Statements

December 31, 20X2

#### 1. Plan Description and Basis of Presentation

The Sponsor Company (Company) established the Sponsor Company Stock Ownership Plan (Plan) effective as of January 1, 20XX. As of January 1, 20XY, the Plan was amended and operates, in relevant part, as a leveraged employee stock ownership plan (ESOP), and is designed to comply with Section 4975(e)(7) and the regulations thereunder of the Internal Revenue Code of 1986, as amended (Code) and is subject to the applicable provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). The Plan is administered by an Employee Benefits Administration Committee comprising up to three persons appointed by the Sponsor Company's Board of Directors. The trust department of an independent third-party bank is the Plan's Trustee.

The Plan purchased Company common shares using the proceeds of a bank borrowing (see Note 6) guaranteed by the Company, and holds the stock in a trust established under the Plan. The borrowing is to be repaid over a period of ten years by fully deductible Company contributions to the trust fund. As the Plan makes each payment of principal, an appropriate percentage of stock will be allocated to eligible employees' accounts in accordance with applicable regulations under the Code. Shares vest fully upon allocation.

The borrowing is collateralized by the unallocated shares of stock and is guaranteed by the Company. The lender has no rights against shares once they are allocated under the ESOP. Accordingly, the financial statements of the Plan for the years 20X2 and 20X1 present separately the assets and liabilities and changes therein pertaining to:

- (a) the accounts of employees with vested rights in allocated stock (Allocated) and
- (b) stock not yet allocated to employees (Unallocated).

Employees of the Company and its participating subsidiaries are generally eligible to participate in the Plan after one year of service providing they worked at least 1,000 hours during such plan year. Participants who do not have at least 1,000 hours of service during such plan year or are not employed on the last working day of a plan year are generally not eligible for an allocation of Company contributions for such year.

No distributions from the Plan will be made until a participant retires, dies (in which case, payment shall be made to his or her beneficiary or, if none, his or her legal representatives), or otherwise terminates employment with the Company and its participating subsidiaries. Distributions are made in cash or, if a participant elects, in the form of Company common shares plus cash for any fractional share.

Each participant is entitled to exercise voting rights attributable to the shares allocated to his or her account and is notified by the Trustee prior to the time that such rights are to be exercised. The Trustee is not permitted to vote any share for which instructions have not been given by a participant.

The Company reserves the right to terminate the Plan at any time, subject to Plan provisions. Upon such termination of the Plan, the interest of each participant in the trust fund will be distributed to such participant or his or her beneficiary at the time prescribed by the Plan terms and the Code. Upon termination of the Plan, the Employee Benefits Administration Committee shall direct the Trustee to pay all liabilities and expenses of the trust fund and to sell shares of financed stock held in the loan suspense account to the extent it determines such sale to be necessary in order to repay the loan.

## 2. Summary of Significant Accounting Policies

### *Basis of Accounting*

The financial statements of the plan are prepared using the accrual method of accounting.

### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets, liabilities, and changes therein. Actual results could differ from those estimates.

### *Investment Valuation and Income Recognition*

The common shares of the Company are valued at fair value on December 31, 20X2 and 20X1. Fair value is determined by annual independent appraisals.

Dividend income is accrued on the ex-dividend date.

Purchases and sales of securities are recorded on a trade-date basis. Realized gains and losses from security transactions are reported on the average cost method.

## 3. Tax Status

The Internal Revenue Service has determined and informed the Company by a letter dated June 30, 20XX, that the Plan is qualified and the trust established under the Plan is tax-exempt, under the appropriate sections of the Code. The Plan has been amended since receiving the determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the Code. Therefore, they believe that the Plan was qualified and the related trust was tax-exempt as of the financial statement date.

## 4. Administration of Plan Assets

The Plan's assets, which consist principally of Sponsor Company common shares, are held by the Trustee of the Plan.

Company contributions are held and managed by the Trustee, which invests cash received, interest, and dividend income and makes distributions to participants. The Trustee also administers the payment of interest and principal on the loan, which is reimbursed to the Trustee through contributions as determined by the Company.

Certain administrative functions are performed by officers or employees of the Company or its subsidiaries. No such officer or employee receives compensation from the Plan. Administrative expenses for the Trustee's fees are paid directly by the Company.

## 5. Investments

The Plan's investments, at December 31, are presented in the following table:

	20X2		20X1	
	<i>Allocated</i>	<i>Unallocated</i>	<i>Allocated</i>	<i>Unallocated</i>
Sponsor Company Common Shares:				
Number of Shares	<u>1,069,000</u>	<u>1,759,000</u>	<u>1,074,000</u>	<u>2,055,000</u>
Cost	<u>\$27,014,000</u>	<u>\$74,456,000</u>	<u>\$29,910,000</u>	<u>\$80,000,000</u>
Market	<u>\$34,890,000</u>	<u>\$57,430,000</u>	<u>\$24,568,000</u>	<u>\$47,015,000</u>



## **6. Loan Payable**

In 20XX, the Plan entered into an \$80,000,000 term loan agreement with a bank. The proceeds of the loan were used to purchase Company's common stock. Unallocated shares are collateral for the loan. The agreement provides for the loan to be repaid over ten years. The scheduled amortization of the loan for the next five years and thereafter is as follows: 20X3—\$6,500,000; 20X4—\$7,000,000; 20X5—\$7,500,000; 20X6—\$8,000,000; 20X7—\$8,500,000; and thereafter—\$31,470,900. The loan bears interest at the prime rate of the lender. For 20X2 and 20X1 the loan interest rate averaged 7.34 percent and 5.12 percent, respectively.

## **7. Employer Contributions**

The Company is obligated to make contributions in cash to the Plan which, when aggregated with the Plan's dividends and interest earnings, equal the amount necessary to enable the Plan to make its regularly scheduled payments of principal and interest due on its term loan.

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## Comment Letter

We welcome any comments and suggestions you have regarding this Checklist. Please send this completed form to: AICPA, Accounting and Auditing Publications, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ, 07311-3881. Thank you.

Checklist Title: \_\_\_\_\_

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